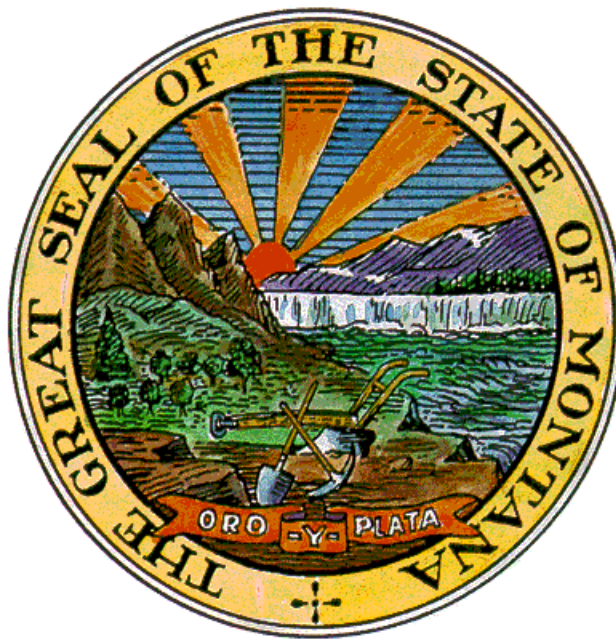


Montana

Comprehensive Annual Financial Report



June 30, 1997

MONTANA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
for the fiscal year ended June 30, 1997

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STATE OF MONTANA

SELECTED STATE OFFICIALS

EXECUTIVE

Marc Racicot

Governor

Judy Martz

Lieutenant Governor

JUDICIAL

J. A. Turnage

Chief Justice

LEGISLATIVE

Gary Aklestad

President of the Senate

John Mercer

Speaker of the House

**STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1997**

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**STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1997**

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Montana

General Purpose Financial Statements

The following financial statements present the financial position of all fund types and account groups and the operating results of all fund types.





LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units, Combining Balance Sheet Component Units-Proprietary Fund Types, Statement of Plan Net Assets Component Unit- Pension Trust Fund, and Combining Balance Sheet Component Units-All Higher Education Funds of the state of Montana as of June 30, 1997, and the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Funds, Combined Statement of Revenues, Expenditures , Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis-Unreserved Fund Balance General and Special Revenue Fund Types, Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units, Combining Statement of Revenues, Expenses and Changes in Retained Earnings Component Units-Proprietary Fund Types, Combining Statement of Changes in Plan Net Assets Pension Trust Funds and Discretely Presented Component Unit, Statement of Changes in Fund Balance Component Units-All Higher Education Funds, Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes Component Units-Higher Education Fund Type and the related Combined Statement of Cash Flows All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows Component Units-Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 5.36 percent, liabilities of 7.32 percent, and net operating revenues and expenditures/transfers-out of 28.86 and 29.83 percent, respectively, in the Enterprise Fund. This financial activity was audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based solely upon the report of the other auditor.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditor, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 1997, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of its pension trust funds and discretely presented component unit, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we will issue reports dated October 30, 1997 on our consideration of the state of Montana's internal control structure and on its compliance with laws and regulations. Those reports will be included in the state's Single Audit Report.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group statements/schedules-primary government listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the state of Montana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the report of another auditor, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

Respectfully submitted,

(Signature on File)

James H. Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

STATE OF MONTANA
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1997
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
ASSETS/OTHER DEBITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets:						
Cash/Cash Equivalents (Note 4)	\$ 39,587	\$ 219,073	\$ 30,478	\$ 22,274	\$ 17,329	\$ 17,991
Receivables (Net of Uncollectibles)	72,373	46,947	3,729	1,187	17,113	938
Interfund Loans Receivable (Note 13)	22,179	43,795	-	-	-	440
Due from Other Governments	5,328	119,284	-	-	-	19
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	293	80	21	-	17	1,095
Due from Other Funds (Note 13)	35,691	10,951	661	335	428	4,009
Inventories	1,792	36,367	-	-	6,092	926
Equity in Pooled Investments (Note 4)	-	9,500	-	-	-	-
Long-Term Loans/Notes Receivable	-	38,935	37,306	-	33,245	-
Advances to Other Funds (Note 13)	7,330	263	-	-	-	-
Investments (Note 4)	-	19,294	1,666	-	20,271	34,810
Securities Lending Collateral (Note 4)	-	15,593	1,850	567	6,162	20,627
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	5,491	9
Equipment	-	-	-	-	4,106	132,577
Other Fixed Assets	-	-	-	-	1,398	2
Construction in Progress	-	-	-	-	-	1,672
Accumulated Depreciation	-	-	-	-	(6,129)	(77,226)
Intangible Assets	-	-	-	-	67	31
Deferred Charges	-	-	-	-	1,086	-
Other Assets	3,289	1,343	-	4	1,923	148
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	\$ 187,862	\$ 561,425	\$ 75,711	\$ 24,367	\$ 109,399	\$ 138,304

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES		ACCOUNT GROUPS		COMPONENT UNITS		
TRUST AND AGENCY		GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
\$ 824,955	\$ -	\$ -	\$ -	\$ 53,103	\$ 51,661	\$ 153,027
117,150	-	-	-	28,256	17,189	42,856
-	-	-	-	-	-	4,065
2	-	-	-	-	-	3,914
-	-	-	-	185	-	1,334
1,357	-	-	-	-	-	-
38,214	-	-	-	1,884	850	19,150
-	-	-	-	49	-	4,097
3,407,594	-	-	-	-	1,547,023	2,530
4,624	-	-	-	413,359	-	234
31	-	-	-	-	-	677
349,645	-	-	-	620,195	125,159	3,709
409,924	-	-	-	101,515	193,936	1,331
49,423	62,645	-	-	-	35	13,310
277	306,556	-	-	-	158	351,141
145	111,692	-	-	4,153	231	140,438
2	48,679	-	-	-	-	79,068
-	14,281	-	-	-	-	96,298
(211)	-	-	-	(2,237)	(242)	-
1	-	-	-	6,420	80	3,301
-	-	-	-	5,977	-	2,225
9,045	-	-	-	538	-	5,799
-	-	29,534	-	-	-	-
-	-	287,283	-	-	-	-
<u>\$ 5,212,178</u>	<u>\$ 543,853</u>	<u>\$ 316,817</u>	<u>\$ 1,233,397</u>	<u>\$ 1,936,080</u>	<u>\$ 928,504</u>	

(Continued on Next Page)

STATE OF MONTANA
Combined Balance Sheet - Continued
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1997
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
LIABILITIES/EQUITY/OTHER CREDITS						
Liabilities:						
Accounts Payable	\$ 80,252	\$ 102,913	\$ 4,422	\$ 1,000	\$ 7,056	\$ 2,482
Lottery Prizes Payable	-	-	-	-	3,052	-
Interfund Loans Payable (Note 13)	-	58,586	-	203	-	85
Advances from Other Funds (Note 13)	-	7,603	-	-	-	-
Due to Other Governments	30,356	3,597	-	-	18	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	217	928	15	14	5	46
Due to Other Funds (Note 13)	15,060	44,354	1,812	354	6,360	1,901
Deferred Revenue	19,252	35,127	772	-	3,150	837
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	2	2,597
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	48,090	2,314
Property Held in Trust	975	1,382	-	2	213	23
Securities Lending Liability (Note 4)	-	15,593	1,850	567	6,162	20,627
Compensated Absences Payable (Note 1)	-	-	-	-	704	2,864
Net Pension Obligation Payable (Note 12)	-	-	-	-	-	-
Estimated Insurance Claims (Note 9)	-	-	-	-	1,659	23,681
Arbitrage Rebate Tax Payable	-	-	-	-	420	-
Other Liabilities	1	19	-	-	-	-
Total Liabilities	146,113	270,102	8,871	2,140	76,891	57,457
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	5,014	5,769
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	27,494	75,078
Fund Balances:						
Reserved for Encumbrances	2,312	37,231	-	-	-	-
Reserved for Inventories	1,792	23,369	-	-	-	-
Reserved for Advances to Other Funds (Note 13)	7,330	-	-	-	-	-
Reserved for Long-Term Loans	-	38,935	37,306	-	-	-
Reserved for Long-Term Advances	-	263	-	-	-	-
Reserved for Debt Service	-	-	29,534	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	14,801	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, Undesignated	30,315	176,724	-	22,227	-	-
Total Equity/Other Credits	41,749	291,323	66,840	22,227	32,508	80,847
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	\$ 187,862	\$ 561,425	\$ 75,711	\$ 24,367	\$ 109,399	\$ 138,304

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS		
	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
\$ 60,026	\$ -	\$ -	\$ 6,785	\$ 176	\$ 24,428
-	-	-	-	-	-
1,040	-	-	-	6,500	4,065
20	-	-	-	-	678
323,077	-	-	-	3	338
-	-	-	675	40	2,148
294	-	-	-	-	-
22,171	-	-	1,818	-	18,343
1,544	-	-	16,689	-	11,842
-	-	1,667	-	10	1,590
-	-	264,693	516,645	-	201,564
692,560	-	-	696	10	6,320
409,924	-	-	101,515	193,936	1,331
107	-	47,310	773	35	29,452
-	-	3,074	-	-	-
-	-	-	520,785	-	-
-	-	73	242	-	-
3,097	-	-	-	-	-
1,513,860	-	316,817	1,166,623	200,710	302,099
-	543,853	-	-	-	537,817
-	-	-	90,668	-	-
-	-	-	89,097	-	-
-	-	-	(112,991)	-	-
-	-	-	-	-	690
-	-	-	-	-	-
-	-	-	-	-	-
3,001	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,083,276	-	-	-	-	30,679
-	-	-	-	-	14,636
2,488,015	-	-	-	1,735,370	-
124,026	-	-	-	-	42,583
3,698,318	543,853	-	66,774	1,735,370	626,405
\$ 5,212,178	\$ 543,853	\$ 316,817	\$ 1,233,397	\$ 1,936,080	\$ 928,504

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	\$ 33,312	\$ 79,449	\$ -	\$ -	\$ 1,745
Taxes:					
Natural Resource	26,685	8,205	362	4,577	33,174
Individual Income	371,254	8	34,994	-	-
Corporate Income	64,079	-	7,212	-	10,709
Property	208,407	7,964	-	-	-
Fuel	-	174,934	-	-	-
Payroll	-	483	-	-	-
Other (Note 1)	69,628	49,811	10,901	2,336	23,737
Charges for Services/Fines/Forfeits	24,669	67,409	1,280	271	186
Investment Earnings	14,532	8,959	4,204	1,046	8,652
Securities Lending Income	7,188	900	171	87	26
Sale of Documents/Mdse./Property	294	3,437	2,097	-	-
Rentals/Leases/Royalties	106	106	-	-	5
Contributions/Premiums	-	4,211	-	-	58,601
Grants/Contracts/Donations	-	7,759	-	-	1,568
Federal	18,796	834,111	144	-	4,727
Federal Indirect Cost Recoveries	122	1,815	-	-	-
Other Revenues	157	813	-	2	-
Total Revenues	839,229	1,250,374	61,365	8,319	143,130
Intrafund Revenues	(107)	(2,576)	-	-	-
Net Revenues	839,122	1,247,798	61,365	8,319	143,130
EXPENDITURES:					
Current:					
General Government	69,300	12,291	55	-	45,545
Public Safety/Corrections	81,040	47,207	-	-	23,908
Transportation	427	324,755	-	-	39
Health/Social Services	226,196	562,233	-	-	-
Education/Cultural	481,233	74,377	-	-	379
Resource Development/Recreation	19,848	72,971	127	26	-
Economic Development/Assistance	3,243	102,447	62	-	66,131
Debt Service:					
Principal Retirement	570	901	22,556	-	20
Interest/Fiscal Charges	1,916	534	12,476	84	6
Capital Outlay	4,040	38,384	-	27,758	8
Securities Lending	6,788	856	161	82	25
Total Expenditures	894,601	1,236,956	35,437	27,950	136,061
Intrafund Expenditures	(107)	(2,576)	-	-	-
Net Expenditures	894,494	1,234,380	35,437	27,950	136,061
Excess of Rev. Over (Under) Expend.	(55,372)	13,418	25,928	(19,631)	7,069
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	5,130	-	2,162	-
Bond Proceeds	295	9,699	-	30,075	-
Inception of Lease/Installment Contract	174	74	-	102	-
General Fixed Asset Sale Proceeds	156	82	-	-	-
Operating Transfers In (Note 13)	154,726	33,129	27,487	4,112	55
Operating Transfers Out (Note 13)	(6,426)	(39,869)	(55,745)	(2,258)	(1,331)
Operating Transfers to Component Units (Note 13)	(100,784)	(13,849)	-	-	-
Total Other Financing Sources (Uses)	48,141	(5,604)	(28,258)	34,193	(1,276)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(7,231)	7,814	(2,330)	14,562	5,793
FUND BALANCES - JULY 1 - as Previously Reported	41,637	280,934	64,643	7,665	121,234
Prior Period Adjustments (Note 3)	2,096	8,247	51	-	-
FUND BALANCES - July 1 - As Restated	43,733	289,181	64,694	7,665	121,234
Increase (Decrease) in Inventories	(247)	(856)	-	-	-
Residual Equity Transfers (Note 13)	5,494	(4,816)	4,476	-	-
FUND BALANCES - JUNE 30	\$ 41,749	\$ 291,323	\$ 66,840	\$ 22,227	\$ 127,027

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
**Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and
Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)**

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	\$ 30,343	\$ 33,312	\$ 2,969	\$ 81,522	\$ 79,448	\$ (2,074)
Taxes:						
Natural Resource	25,396	26,685	1,289	8,928	8,205	(723)
Individual Income	368,953	371,254	2,301	13	8	(5)
Corporate Income	65,889	64,079	(1,810)	-	-	-
Property	207,900	208,407	507	6,696	7,964	1,268
Fuel	-	-	-	178,864	174,934	(3,930)
Payroll	-	-	-	483	483	-
Other	67,044	69,628	2,584	49,400	49,811	411
Charges for Services/Fines/Forfeits	23,676	24,669	993	65,826	67,409	1,583
Investment Earnings	15,268	14,532	(736)	7,304	8,959	1,655
Securities Lending Income	7,188	7,188	-	900	900	-
Sale of Documents/Merchandise/Property	225	294	69	3,381	3,437	56
Rentals/Leases/Royalties	74	106	32	122	106	(16)
Contributions/Premiums	-	-	-	4,644	4,211	(433)
Grants/Contracts/Donations	-	-	-	10,271	7,759	(2,512)
Federal	23,584	18,797	(4,787)	992,852	834,111	(158,741)
Federal Indirect Cost Recoveries	53	122	69	1,846	1,815	(31)
Other Revenues	123	157	34	1,074	813	(261)
Total Revenues	835,716	839,230	3,514	1,414,126	1,250,373	(163,753)
EXPENDITURES:						
Current:						
General Government	77,857	66,384	11,473	45,440	10,978	34,462
Public Safety/Corrections	82,880	82,157	723	75,738	47,124	28,614
Transportation	378	319	59	424,163	322,549	101,614
Health/Social Services	233,185	221,566	11,619	567,917	497,605	70,312
Education/Cultural	489,381	481,224	8,157	85,930	74,285	11,645
Resource Development/Recreation	19,850	19,769	81	124,488	74,070	50,418
Economic Development/Assistance	3,296	3,225	71	126,237	103,724	22,513
Debt Service:						
Principal Retirement	520	520	-	904	904	-
Interest/Fiscal Charges	1,912	1,912	-	538	538	-
Capital Outlay	3,637	3,637	-	36,790	36,790	-
Securities Lending	6,788	6,788	-	856	856	-
Total Expenditures	919,684	887,501	32,183	1,489,001	1,169,423	319,578
Excess of Rev. Over (Under) Expend.	(83,968)	(48,271)	35,697	(74,875)	80,950	155,825
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	13,552	5,129	(8,423)
Bond Proceeds	-	296	296	10,865	9,698	(1,167)
General Fixed Asset Sale Proceeds	100	156	56	25	82	57
Operating Transfers In	159,702	152,811	(6,891)	29,206	23,576	(5,630)
Operating Transfers Out	(6,493)	(5,092)	1,401	(12,479)	(11,189)	1,290
Transfers to Component Units	(100,784)	(100,784)	-	(13,849)	(13,849)	-
Total Other Financing Sources (Uses)	52,525	47,387	(5,138)	27,320	13,447	(13,873)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(31,443)	(884)	30,559	(47,555)	94,397	141,952
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances	-	335	335	-	7,072	7,072
2. Adjustments for appropriated loans/other nonbudgeted activity	-	1,319	1,319	-	(82,215)	(82,215)
3. Intrafund elimination - Transfers In	-	(107)	(107)	-	(2,576)	(2,576)
4. Intrafund elimination - Transfers Out	-	107	107	-	2,576	2,576
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(31,443)	770	32,213	(47,555)	19,254	66,809
UNRESERVED FUND BALANCES - JULY 1	30,145	30,145	-	172,800	170,564	(2,236)
Residual Equity Transfers (Note 13)	5,494	5,494	-	(2,371)	(4,816)	(2,445)
Prior Period Adjustments (Note 3)	-	2,096	2,096	-	8,247	8,247
Decrease (Increase):						
Encumbrances Reserve	-	(3,390)	(3,390)	-	(5,443)	(5,443)
Advances to Other Funds Reserve	-	(4,800)	(4,800)	-	(40)	(40)
Long-Term Loans Reserve	-	-	-	-	(10,465)	(10,465)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(577)	(577)
UNRESERVED FUND BALANCES - JUNE 30	\$ 4,196	\$ 30,315	\$ 26,119	\$ 122,874	\$ 176,724	\$ 53,850

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
OPERATING REVENUES:				
Charges for Services	\$ 73,525	\$ 64,881	\$ 7,321	\$ 503
Investment Earnings	1,506	3,016	77,450	44,736
Securities Lending Income	215	1,303	10,113	7,639
Financing Income	2,364	-	-	29,521
Contributions/Premiums	4,822	70,019	-	87,834
Grants/Contracts/Donations	21	-	-	-
Taxes	10,130	-	21,253	49,208
Rentals/Leases/Royalties	-	-	26,821	-
Other Operating Revenues	6,206	539	46	381
Total Operating Revenues	98,789	139,758	143,004	219,822
Intrafund Revenues	-	(240)	-	-
Net Operating Revenues	98,789	139,518	143,004	219,822
OPERATING EXPENSES:				
Personal Services	6,755	21,788	-	8,342
Contractual Services	5,638	10,902	-	4,504
Supplies/Materials	30,716	14,576	-	233
Benefits/Claims (Note 3)	5,128	66,957	-	52,195
Depreciation	596	10,584	-	578
Amortization	7	23	-	81
Utilities/Rent	419	5,052	-	171
Communications	1,069	10,488	-	527
Travel	166	289	-	158
Repair/Maintenance	360	5,181	-	328
Local Assistance	1,343	-	-	-
Grants	-	-	13	-
Lottery Prize Payments	14,333	-	-	-
Interest Expense	2,234	345	-	35,108
Securities Lending Expense	204	1,235	9,714	7,231
Arbitrage Rebate Tax	244	-	-	64
Other Operating Expenses	4,543	1,876	5	2,004
Total Operating Expenses	73,755	149,296	9,732	111,524
Intrafund Expenses	-	(240)	-	-
Net Operating Expenses	73,755	149,056	9,732	111,524
Operating Income (Loss)	25,034	(9,538)	133,272	108,298
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) Sale of Fixed Assets	(111)	162	-	3
Increase (Decrease) Value of Livestock	521	-	-	-
Federal Indirect Cost Recoveries	-	2,317	-	-
Total Nonoperating Revenues (Expenses)	410	2,479	-	3
Income (Loss) Before Operating Transfers	25,444	(7,059)	133,272	108,301
Operating Transfers In (Note 13)	85	1,129	1,268	-
Operating Transfers Out (Note 13)	(21,815)	(113)	(95,867)	-
Operating Transfers to Component Units (Note 13)	-	-	(1,740)	-
Net Income Before Extraordinary Items	3,714	(6,043)	36,933	108,301
Loss on Debt Extinguishment (Note 12)	-	-	-	(3,535)
Net Income (Loss)	3,714	(6,043)	36,933	104,766
RETAINED EARNINGS/FUND BALANCES - July 1				
As Previously Reported	24,209	80,989	1,049,706	(49,569)
Prior Period Adjustments (Note 3)	71	132	(1)	-
RETAINED EARNINGS/FUND BALANCES - July 1				
As Restated	24,280	81,121	1,049,705	(49,569)
Residual Equity Transfers (Note 13)	(500)	-	(3,362)	(79,091)
RETAINED EARNINGS/FUND BALANCES - JUNE 30	\$ 27,494	\$ 75,078	\$ 1,083,276	(23,894)

The notes to the financial statements are an integral part of this statement.



STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	\$ 83,897	\$ 136,206	\$ 7,590	\$ 86,794
Collections of Principal and Interest on Loans	-	-	-	72,841
Cash Payments for Loans	-	-	-	(101,672)
Payments to Suppliers for Goods and Services	(42,826)	(48,546)	-	(8,034)
Payments to Employees	(6,577)	(21,459)	-	(8,201)
Grant Receipts	-	2,405	-	-
Grant Payments	-	-	(13)	-
Cash Payments for Claims	(5,078)	(68,355)	-	(74,677)
Cash Payments for Local Assistance	(1,454)	-	-	-
Collections of Notes Receivable	-	-	-	29
Collections of Payroll Taxes	-	-	-	49,229
Cash Payments for Prizes	(14,228)	-	-	-
Transfers from Other Funds	-	420	-	-
Scholarship/Fellowship Payments	-	-	(6)	-
Other Operating Revenues	5,838	282	56	381
Net Cash Provided by (Used for)				
Operating Activities	19,572	953	7,627	16,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(5,330)	-	-	(244,462)
Proceeds from Issuance of Bonds and Notes	10,825	2,292	-	158,047
Payment of Bond Issuance Costs	(207)	-	-	(1,760)
Collection of Taxes	10,130	-	20,891	-
Transfers to Other Funds	(24,705)	(114)	(100,220)	-
Transfers to Component Units	-	-	(1,740)	-
Transfers from Other Funds	172	1,096	1,268	-
Proceeds from Interfund Loans	-	195	14,589	-
Payment of Interfund Loans	(35)	(665)	(14,038)	-
Residual Equity Transfers to Other Funds	(500)	(77)	(3,913)	(90,690)
Residual Equity Transfers from Other Funds	-	-	551	11,600
Contributed Capital Transfers to Other Funds	-	(2,292)	-	(11,577)
Contributed Capital Transfers from Other Funds	21	960	-	90,668
Net Cash Provided by (Used for)				
Noncapital Financing Activities	(9,629)	1,395	(82,612)	(88,174)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(570)	(10,310)	(2)	(3,632)
Proceeds from Sale of Fixed Assets	35	1,054	-	15
Principal and Interest Payments on Bonds and Notes	(12)	(1,465)	-	-
Net Cash Used for Capital and Related Financing Activities	(547)	(10,721)	(2)	(3,617)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(14,852)	(14,312)	(43,751)	(769,614)
Proceeds from Sales or Maturities of Investments	8,552	13,592	18,421	801,581
Proceeds from Securities Lending Transactions	190	1,208	10,089	7,175
Interest and Dividends on Investments	1,276	3,131	74,466	45,776
Payment of Securities Lending Costs	(180)	(1,140)	(9,691)	(6,768)
Collections of Principal and Interest on Loans	6,627	-	-	88
Cash Payments for Loans	(12,586)	-	-	-
Arbitrage Rebate Tax	(85)	-	-	-
Collection of Rents/Leases/Royalties	-	-	27,552	-
Net Cash Provided by (Used for)				
Investing Activities	(11,058)	2,479	77,086	78,238
Net Increase (Decrease) in Cash and Cash Equivalents	(1,662)	(5,894)	2,099	3,137
Cash and Cash Equivalents, July 1	18,991	23,885	51,857	49,966
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 17,329	\$ 17,991	\$ 53,956	\$ 53,103

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 25,034	\$ (9,538)	\$ 133,272	\$ 108,298	
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	596	10,584	-	578	
Amortization	7	23	-	81	
Taxes	(10,130)	-	(21,253)	-	
Interest Expense	2,234	345	-	35,108	
Securities Lending Expense	204	1,235	9,714	7,231	
Interest on Investments	(1,506)	(3,016)	(77,450)	(44,736)	
Securities Lending Income	(215)	(1,303)	(10,113)	(7,639)	
Federal Indirect Cost Recoveries	-	2,317	-	-	
Arbitrage Rebate Tax	244	-	-	64	
Operating Transfers in	-	96	-	-	
Rentals/Leases/Royalties	-	-	(26,811)	-	
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	3,121	(127)	-	(524)	
Decr (Incr) in Due From Other Governments	-	(7)	-	-	
Decr (Incr) in Due From Other Funds	(232)	(5)	264	(77)	
Decr (Incr) in Due From Primary Government	-	-	-	139	
Decr (Incr) in Due From Component Units	116	(229)	-	-	
Decr (Incr) in Inventories	(703)	41	-	9	
Decr (Incr) in Long-term Loans/Notes Receivable	-	1,272	-	(58,116)	
Incr (Decr) in Deferred Charges	-	-	-	30	
Decr (Incr) in Other Assets	4,279	129	-	(51)	
Incr (Decr) in Accounts Payable	759	(405)	(1)	490	
Incr (Decr) in Lottery Prizes Payable	192	-	-	-	
Incr (Decr) in Due to Other Funds	(49)	113	5	65	
Incr (Decr) in Due to Other Governments	13	-	-	-	
Incr (Decr) in Due to Primary Government	-	-	-	(287)	
Incr (Decr) in Due to Component Units	(7)	25	-	-	
Incr (Decr) in Deferred Revenue	(153)	673	-	(1,216)	
Incr (Decr) in Property Held in Trust	(4,324)	(126)	-	(331)	
Incr (Decr) in Compensated Absences Payable	73	214	-	68	
Incr (Decr) in Estimated Insurance Claims	19	(1,358)	-	(22,494)	
Net Cash Provided by (Used For)					
Operating Activities	\$ 19,572	\$ 953	\$ 7,627	\$ 16,690	
SCHEDULE OF NONCASH TRANSACTIONS:					
Fixed Asset Acquisitions from Capital Leases	\$ -	\$ 1,536	\$ -	-	
Asset Acquisitions from Contributed					
Capital Transfers from Other Funds	2,244	940	-	-	
Asset Disposals from Contributed Capital	-	(70)	-	-	
Total Noncash Transactions	\$ 2,244	\$ 2,406	\$ -	-	
RECONCILIATION FOR NONEXPENDABLE TRUST:					
Cash and Cash Equivalents, June 30			\$ 53,956		
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency			770,999		
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency			\$ 824,955		

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1997
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	\$ 3,166	\$ 460	\$ 28,189	\$ 21,288	\$ 53,103
Receivables (Net)	5,094	112	19,728	3,322	28,256
Due from Primary Government (Note 13)	1	-	13	171	185
Due from Other Funds (Note 13)	-	-	1,845	39	1,884
Inventories	-	-	49	-	49
Long-Term Loans/Notes Receivable	413,241	118	-	-	413,359
Investments (Note 4)	184,101	697	435,397	-	620,195
Securities Lending Collateral (Note 4)	41	418	100,496	560	101,515
Equipment	273	16	3,864	-	4,153
Accumulated Depreciation	(176)	(8)	(2,053)	-	(2,237)
Intangible Assets	20	-	6,400	-	6,420
Deferred Charges	5,977	-	-	-	5,977
Other Assets	38	-	500	-	538
TOTAL ASSETS	\$ 611,776	\$ 1,813	\$ 594,428	\$ 25,380	\$ 1,233,397
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	\$ 5,824	\$ 3	\$ 943	\$ 15	\$ 6,785
Due to Primary Government (Note 13)	41	8	620	6	675
Due to Other Funds (Note 13)	-	-	-	1,818	1,818
Deferred Revenue	-	1	16,388	300	16,689
Bonds/Notes Payable (Net) (Note 12)	516,645	-	-	-	516,645
Property Held In Trust	1	-	695	-	696
Securities Lending Liability (Note 4)	41	418	100,496	560	101,515
Compensated Absences Payable	41	23	680	29	773
Estimated Insurance Claims (Note 9)	-	-	315,107	205,678	520,785
Arbitrage Rebate Tax Payable	86	-	-	156	242
Total Liabilities	522,679	453	434,929	208,562	1,166,623
Fund Equity:					
Contributed Capital (Note 17)	-	-	-	90,668	90,668
Retained Earnings:					
Reserved for Debt Service (Note 15)	89,097	-	-	-	89,097
Unreserved	-	1,360	159,499	(273,850)	(112,991)
Total Fund Equity	89,097	1,360	159,499	(183,182)	66,774
TOTAL LIABILITIES/FUND EQUITY	\$ 611,776	\$ 1,813	\$ 594,428	\$ 25,380	\$ 1,233,397

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	\$ 166	\$ 294	\$ 43	\$ -	\$ 503
Investment Earnings	10,058	69	31,874	2,735	44,736
Securities Lending Income	7	42	7,402	188	7,639
Financing Income	29,521	-	-	-	29,521
Contributions/Premiums	-	-	88,227	(393)	87,834
Payroll Taxes	-	-	-	49,208	49,208
Other Operating Revenues	174	-	207	-	381
Total Operating Revenues	39,926	405	127,753	51,738	219,822
OPERATING EXPENSES:					
Personal Services	441	70	6,814	1,017	8,342
Contractual Services	1,920	47	2,302	235	4,504
Supplies/Materials	19	2	184	28	233
Benefits/Claims (Note 3)	-	-	79,006	(26,811)	52,195
Depreciation	25	1	552	-	578
Amortization	5	-	76	-	81
Utilities/Rent	35	-	118	18	171
Communications	29	3	442	53	527
Travel	39	23	87	9	158
Repair/Maintenance	41	-	250	37	328
Interest Expense	32,766	-	-	2,342	35,108
Securities Lending Expense	6	32	7,023	170	7,231
Arbitrage Rebate Tax	48	-	-	16	64
Other Operating Expenses	42	14	548	1,400	2,004
Total Operating Expenses	35,416	192	97,402	(21,486)	111,524
Operating Income (Loss)	4,510	213	30,351	73,224	108,298
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	-	(1)	4	-	3
Total Nonoperating Revenues (Expenses)	-	(1)	4	-	3
Income (Loss) Before Extraordinary Items	4,510	212	30,355	73,224	108,301
Loss on Debt Extinguishment (Note 12)	-	-	-	(3,535)	(3,535)
Net Income (Loss)	4,510	212	30,355	69,689	104,766
RETAINED EARNINGS - JULY 1 -	84,587	1,148	219,834	(355,138)	(49,569)
Residual Equity Transfers	-	-	(90,690)	11,599	(79,091)
RETAINED EARNINGS - JUNE 30	\$ 89,097	\$ 1,360	\$ 159,499	\$ (273,850)	\$ (23,894)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	\$ 83	\$ 292	\$ 86,807	\$ (388)	\$ 86,794
Collections of Principal and Interest on Loans	72,841	-	-	-	72,841
Cash Payments for Loans	(101,672)	-	-	-	(101,672)
Payments to Suppliers for Goods and Services	(2,125)	(98)	(4,128)	(1,683)	(8,034)
Payments to Employees	(409)	(63)	(6,676)	(1,053)	(8,201)
Cash Payments for Claims	-	-	(58,345)	(16,332)	(74,677)
Collection of Notes Receivable	-	-	-	29	29
Collection of Payroll Taxes	-	-	-	49,229	49,229
Other Operating Revenues	174	-	207	-	381
Net Cash Provided by (Used for) Operating Activities	(31,108)	131	17,865	29,802	16,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(111,918)	-	-	(132,544)	(244,462)
Proceeds from Issuance of Bonds and Notes	158,047	-	-	-	158,047
Payment of Bond Issuance Costs	(1,760)	-	-	-	(1,760)
Residual Equity Transfers to Other Funds	-	-	(90,690)	-	(90,690)
Residual Equity Transfers from Other Funds	-	-	-	11,600	11,600
Contributed Capital Transfers to Other Funds	-	-	(11,577)	-	(11,577)
Contributed Capital Transfers from Other Funds	-	-	-	90,668	90,668
Net Cash Provided by (Used for) Noncapital Financing Activities	44,369	-	(102,267)	(30,276)	(88,174)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(34)	-	(3,598)	-	(3,632)
Proceeds from Sale of Fixed Assets	-	-	15	-	15
Net Cash Used for Capital and Related Financing Activities	(34)	-	(3,583)	-	(3,617)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(583,379)	(696)	(185,539)	-	(769,614)
Proceeds from Sales or Maturities of Investments	559,172	603	230,706	11,100	801,581
Proceeds from Securities Lending Transactions	6	39	6,942	188	7,175
Interest and Dividends on Investments	9,631	85	33,150	2,910	45,776
Payment of Securities Lending Costs	(6)	(29)	(6,562)	(171)	(6,768)
Collections of Principal and Interest on Loans	-	88	-	-	88
Net Cash Provided by (Used for) Investing Activities	(14,576)	90	78,697	14,027	78,238
Net Increase (Decrease) in Cash and Cash Equivalents	(1,349)	221	(9,288)	13,553	3,137
Cash and Cash Equivalents, July 1	4,515	239	37,477	7,735	49,966
Cash and Cash Equivalents, June 30	\$ 3,166	\$ 460	\$ 28,189	\$ 21,288	\$ 53,103

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 4,510	\$ 213	\$ 30,351	\$ 73,224	\$ 108,298
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	25	1	552	-	578
Amortization	5	-	76	-	81
Interest Expense	32,766	-	-	2,342	35,108
Securities Lending Expense	6	32	7,023	170	7,231
Interest on Investments	(10,058)	(69)	(31,874)	(2,735)	(44,736)
Securities Lending Income	(7)	(42)	(7,402)	(188)	(7,639)
Arbitrage Rebate Tax	48	-	-	16	64
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	1	(8)	(350)	(167)	(524)
Decr (Incr) in Due From Other Funds	-	-	(75)	(2)	(77)
Decr (Incr) in Due From Primary Government	-	-	23	116	139
Decr (Incr) in Inventories	-	-	9	-	9
Decr (Incr) in Long-Term Loans/Notes Receivable	(58,116)	-	-	-	(58,116)
Incr (Decr) in Deferred Charges	30	-	-	-	30
Decr (Incr) in Other Assets	(361)	-	310	-	(51)
Incr (Decr) in Accounts Payable	32	4	440	14	490
Incr (Decr) in Due to Other Funds	(2)	-	(7)	74	65
Incr (Decr) in Due to Primary Government	6	(4)	(293)	4	(287)
Incr (Decr) in Deferred Revenue	-	-	(1,287)	71	(1,216)
Incr (Decr) in Property Held in Trust	2	-	(333)	-	(331)
Incr (Decr) in Compensated Absences Payable	5	4	72	(13)	68
Incr (Decr) in Estimated Insurance Claims	-	-	20,630	(43,124)	(22,494)
Net Cash Provided by (Used for)					
Operating Activities	\$ (31,108)	\$ 131	\$ 17,865	\$ 29,802	\$ 16,690

STATE OF MONTANA
Statement of Plan Net Assets
Component Unit - Pension Trust Fund
June 30, 1997
(Expressed in Thousands)

	<u>TRS</u>
ASSETS:	
Cash/Cash Equivalents (Note 4)	\$ 51,661
Receivables (Net):	
Employer Contributions	4,410
Employee Contributions	4,132
Interest	8,638
Other Receivables	9
Due from Other Funds (Note 13)	850
Investments, at Fair Value:	
Equity in Pooled Investments (Note 4)	1,547,023
Other Investments (Note 4)	125,159
Securities Lending Collateral (Note 4)	193,936
Land	35
Buildings/Improvements	158
Equipment	231
Accumulated Depreciation	(242)
Intangible Assets	80
TOTAL ASSETS	<u><u>\$ 1,936,080</u></u>
LIABILITIES/FUND BALANCES:	
Accounts Payable	\$ 176
Interfund Loans Payable	6,500
Due to Primary Government (Note 13)	40
Due to Other Governments	3
Lease/Installment Purch. Payable (Note 11)	10
Property Held in Trust	10
Securities Lending Liability (Note 4)	193,936
Compensated Absences Payable (Note 1)	35
Total Liabilities	<u>200,710</u>
Fund Balances Reserved for Employees' Pension Benefits	1,735,370
Total Fund Balance	<u>1,735,370</u>
TOTAL LIABILITIES/FUND BALANCES	<u><u>\$ 1,936,080</u></u>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Changes in Plan Net Assets
Pension Trust Funds and Discretely Presented Component Unit
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	PERS	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE- FIGHTERS	TOTAL PRIMARY GOVT	COMP UNIT TRS
ADDITIONS:										
Charges for Services	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2	-
Contributions/Premiums:										
Employer	45,303	2,421	2,077	1,683	1,641	177	250	-	53,552	41,640
Employee	52,634	1,693	1,146	1,800	586	207	244	-	58,310	40,348
Other Contributions	123	6,879	4,774	27	932	951	-	911	14,597	101
Net Investment Earnings:										
Investment Earnings	342,591	13,808	12,962	13,860	9,457	5,011	3,655	1,562	402,906	283,850
Administrative Investment Expense	(1,397)	(43)	(36)	(43)	(31)	(19)	(11)	(9)	(1,589)	(1,149)
Securities Lending Income	14,566	666	630	671	460	243	177	107	17,520	12,108
Securities Lending Expense	(13,773)	(631)	(597)	(635)	(435)	(229)	(168)	(102)	(16,570)	(11,448)
Other Additions	103	-	-	-	-	-	-	-	103	16
Intrafund Revenues	(103)	-	-	-	-	-	-	-	(103)	-
Total Additions	440,049	24,793	20,956	17,363	12,610	6,341	4,147	2,469	528,728	365,466
DEDUCTIONS:										
Benefits	82,291	7,211	5,955	1,502	3,580	1,203	1,099	756	103,597	88,631
Refunds	10,450	228	22	345	99	-	-	-	11,144	3,840
Administrative Expenses:										
Personal Services	581	-	-	-	-	-	-	-	581	348
Contractual Services	291	-	-	-	-	-	-	-	291	128
Supplies/Materials	13	-	-	-	-	-	-	-	13	16
Depreciation	25	-	-	-	-	-	-	-	25	27
Amortization	2	-	-	-	-	-	-	-	2	55
Utilities/Rent	101	-	-	-	-	-	-	-	101	24
Communications	59	-	-	-	-	-	-	-	59	34
Travel	20	-	-	-	-	-	-	-	20	12
Repair/Maintenance	3	-	-	-	-	-	-	-	3	19
Interest Expense	-	-	-	-	-	-	-	-	-	2
Other Operating Expenses	29	28	22	20	12	350	4	19	484	10
Local Assistance	-	-	-	-	-	-	-	12	12	-
Intrafund Expenses	(103)	-	-	-	-	-	-	-	(103)	-
Total Deductions	93,762	7,467	5,999	1,867	3,691	1,553	1,103	787	116,229	93,146
Net Increase (Decrease)	346,287	17,326	14,957	15,496	8,919	4,788	3,044	1,682	412,499	272,320
FUND BALANCES - JULY 1 -										
As Previously Reported	1,749,676	74,060	71,384	72,746	50,209	26,571	19,366	11,504	2,075,516	1,463,050
Prior Period Adjustments	-	-	-	-	-	-	-	-	-	-
FUND BALANCES - JULY 1 -										
As Restated	1,749,676	74,060	71,384	72,746	50,209	26,571	19,366	11,504	2,075,516	1,463,050
FUND BALANCES - JUNE 30	\$ 2,095,963	\$ 91,386	\$ 86,341	\$ 88,242	\$ 59,128	\$ 31,359	\$ 22,410	\$ 13,186	\$ 2,488,015	\$ 1,735,370

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1997
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	\$ 11,651	\$ 16,460	\$ 11,811	\$ 4,052
Receivables (Net)	3,462	490	735	11,353
Interfund Loans Receivable (Note 13)	800	3,265	-	-
Due from Other Governments	2	2	-	3,876
Due from Primary Government (Note 13)	12	123	37	872
Due from Other Funds (Note 13)	5,061	6,342	636	307
Inventories	91	1,701	2,305	-
Equity in Pooled Investments (Note 4)	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Advances to Other Funds	-	10	9	-
Investments (Note 4)	-	-	-	25
Securities Lending Collateral (Note 4)	-	26	118	36
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,698	1,838	810	156
TOTAL ASSETS	\$ 23,777	\$ 30,257	\$ 16,461	\$ 20,677
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 10,394	\$ 4,482	\$ 1,888	\$ 3,805
Interfund Loans Payable (Note 13)	-	-	-	3,800
Advances from Other Funds	-	29	225	9
Due to Other Governments	110	13	-	13
Due to Primary Government (Note 13)	450	1,330	19	33
Due to Other Funds (Note 13)	5,973	2,458	1,236	5,483
Deferred Revenue	6,133	824	753	3,886
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	66	8	9	-
Property Held in Trust	231	52	393	-
Securities Lending Liability (Note 4)	-	26	118	36
Compensated Absences Payable (Note 1)	22,655	4,848	1,801	148
Total Liabilities	46,012	14,070	6,442	17,213
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	592	82	1	15
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(22,827)	16,105	10,018	3,449
Total Fund Balances	(22,235)	16,187	10,019	3,464
TOTAL LIABILITIES/FUND BALANCES	\$ 23,777	\$ 30,257	\$ 16,461	\$ 20,677

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS				PLANT FUNDS			
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
\$ 2,126	\$ 2,409	\$ 3,874	\$ 80,789	\$ 17,048	\$ 2,807	-	\$ 153,027
26,147	11	103	370	108	77	-	42,856
-	-	-	-	-	-	-	4,065
-	-	-	34	-	-	-	3,914
4	-	39	110	4	133	-	1,334
38	17	4,277	930	568	974	-	19,150
-	-	-	-	-	-	-	4,097
-	2,489	41	-	-	-	-	2,530
215	-	-	19	-	-	-	234
-	-	-	-	253	405	-	677
-	762	-	-	2,922	-	-	3,709
28	334	558	26	171	34	-	1,331
-	-	-	-	-	-	13,310	13,310
-	-	-	-	-	-	351,141	351,141
-	-	-	-	-	-	140,438	140,438
-	-	-	-	-	-	79,068	79,068
-	-	-	50,559	2,828	-	42,911	96,298
-	-	-	-	-	-	3,301	3,301
-	-	-	-	-	2,225	-	2,225
-	-	251	43	3	-	-	5,799
\$ 28,558	\$ 6,022	\$ 9,143	\$ 132,880	\$ 23,905	\$ 6,655	\$ 630,169	\$ 928,504
\$ 1	\$ -	\$ 616	\$ 1,174	\$ 436	\$ 1,632	-	\$ 24,428
-	-	-	265	-	-	-	4,065
-	-	-	75	205	-	135	678
-	-	202	-	-	-	-	338
-	-	306	6	4	-	-	2,148
169	38	1,817	395	481	293	-	18,343
-	-	-	78	107	61	-	11,842
-	-	-	-	-	-	1,590	1,590
-	-	-	102,814	5,535	2,505	90,627	201,564
-	-	5,644	-	-	-	-	6,320
28	334	558	26	171	34	-	1,331
-	-	-	-	-	-	-	29,452
198	372	9,143	104,833	6,939	4,525	92,352	302,099
-	-	-	-	-	-	537,817	537,817
-	-	-	-	-	-	-	690
26,034	4,645	-	-	-	-	-	30,679
-	-	-	13,118	1,518	-	-	14,636
2,326	1,005	-	14,929	15,448	2,130	-	42,583
28,360	5,650	-	28,047	16,966	2,130	537,817	626,405
\$ 28,558	\$ 6,022	\$ 9,143	\$ 132,880	\$ 23,905	\$ 6,655	\$ 630,169	\$ 928,504

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	\$ 88,912	\$ 9,734	\$ 9,009	\$ -
Federal Grants/Contracts	4,478	31	9	96,432
State Grants/Contracts	-	433	-	8,982
Local Grants/Contracts	-	-	-	2,095
Private Gifts/Grants/Donations	-	835	-	15,793
Endowment Income	-	-	-	173
Sales/Services-Educational Activities	662	2,170	1	116
Sales/Services-Designated/Auxiliary Enterprises	3	21,017	48,849	84
Indirect Costs Recovered	40	9,433	-	-
Investment Earnings	112	133	964	184
Securities Lending Income	-	4	33	6
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	355	2,743	715	386
Total Revenues/Other Additions	94,562	46,533	59,580	124,251
Intrafund Revenues/Other Additions	-	-	-	(2,270)
Net Revenues/Other Additions	94,562	46,533	59,580	121,981
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	104,234	5,294	-	4,918
Research	11,889	7,408	-	38,965
Public Service	6,610	5,231	-	13,232
Academic Support	18,300	7,721	-	2,111
Student Services	16,172	11,969	-	3,655
Institutional Support	17,593	1,533	-	1,493
Independent Operations	1,915	140	-	-
Scholarships/Fellowships	7,458	380	-	53,430
Auxiliary Enterprises	-	30	49,234	104
Operation/Maintenance of Plant	22,566	732	-	33
Expended for Plant	-	-	-	-
Debt Services	181	226	98	69
Capital Outlay	6,665	3,536	285	5,017
Securities Lending	-	4	31	6
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	890	267	68	27
Total Expenditures/Other Deductions	214,473	44,471	49,716	123,060
Intrafund Expenditures/Other Deductions	-	-	-	(2,270)
Net Expenditures/Other Deductions	214,473	44,471	49,716	120,790
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	100,745	-	-	-
Millage Transfers	13,840	-	-	-
Mandatory Transfers	623	(502)	(8,040)	2
Nonmandatory Transfers	(244)	164	(1,161)	10
Transfers from Primary Government	-	-	214	-
Gain on Advance Refunding	-	-	-	-
Total Transfers In (Out) (Note 13)	114,964	(338)	(8,987)	12
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	1	-
Bond Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	114,964	(338)	(8,986)	12
Net Increase (Decrease) in Fund Balances	(4,947)	1,724	878	1,203
FUND BALANCES - July 1 - As Previously Reported	(17,289)	14,437	9,089	2,266
Prior Period Adjustments (Note 3)	1	21	-	-
FUND BALANCES - July 1 - As Restated	(17,288)	14,458	9,089	2,266
Residual Equity Transfers (Note 13)	-	5	52	(5)
FUND BALANCES - June 30	\$ (22,235)	\$ 16,187	\$ 10,019	\$ 3,464

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS		
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
\$ 1 \$	- \$	2,117 \$	1,211 \$	3,076 \$	-
523	-	164	-	23	-
90	-	-	-	-	-
-	-	-	-	-	-
43	4	1,938	42	-	-
-	56	-	-	-	-
-	-	-	-	-	-
2	-	49	165	100	-
-	-	-	-	-	-
363	8	4,096	659	979	-
4	-	5	11	27	-
-	-	-	-	-	105,282
-	-	-	-	-	31,765
413	-	2,455	1,172	487	-
1,439	68	10,824	3,260	4,692	137,047
-	-	-	-	-	-
1,439	68	10,824	3,260	4,692	137,047
-	-	48	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,534	4,544	25	-
-	-	534	150	43,272	-
-	-	2,577	3,523	-	-
4	-	5	11	27	-
-	-	-	-	-	19,104
-	-	-	-	-	50,981
426	-	-	-	-	-
434	1	6,698	8,228	43,324	70,085
-	-	-	-	-	-
434	1	6,698	8,228	43,324	70,085
-	-	21	18	-	-
-	-	-	-	-	-
-	-	(2,735)	47	11,512	-
(11)	188	677	5,999	(5,094)	-
-	-	702	9	824	-
-	-	-	-	19	-
(11)	188	(1,335)	6,073	7,261	-
-	-	(2,458)	(1,155)	751	(3,582)
-	-	311	-	-	-
-	-	-	-	28,948	-
(11)	188	(3,482)	4,918	36,960	(3,582)
994	255	644	(50)	(1,672)	63,380
27,366	5,395	25,721	16,830	3,839	474,437
-	-	1,701	186	(4)	-
27,366	5,395	27,422	17,016	3,835	474,437
-	-	(19)	-	(33)	-
\$ 28,360 \$	\$ 5,650 \$	\$ 28,047 \$	\$ 16,966 \$	\$ 2,130 \$	\$ 537,817

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	\$ 88,912	\$ 9,734	\$ 9,009	\$ -
Federal Grants/Contracts	4,478	31	9	96,432
State Grants/Contracts	-	433	-	8,982
Local Grants/Contracts	-	-	-	2,095
Private Gifts/Grants/Donations	-	835	-	15,793
Endowment Income	-	-	-	173
Sales/Services-Educational Activities	662	2,170	1	116
Sales/Services-Designated/Auxiliary Enterprises	3	21,017	48,849	84
Indirect Costs Recovered	40	9,433	-	-
Investment Earnings	112	133	964	184
Securities Lending Income	-	4	33	6
Other Revenues	355	2,743	715	386
Total Revenues	94,562	46,533	59,580	124,251
Intrafund Revenues	-	-	-	(2,270)
Net Revenues	94,562	46,533	59,580	121,981
EXPENDITURES:				
Educational and General:				
Instruction	104,234	5,294	-	4,918
Research	11,889	7,408	-	38,965
Public Service	6,610	5,231	-	13,232
Academic Support	18,300	7,721	-	2,111
Student Services	16,172	11,969	-	3,655
Institutional Support	17,593	1,533	-	1,493
Scholarships/Fellowships	7,458	380	-	53,430
Operation/Maintenance of Plant	22,566	732	-	33
Other Expenditures	890	267	68	27
Total Educational and General Expenditures	205,712	40,535	68	117,864
Intrafund Expenditures	-	-	-	(2,270)
Net Educational and General Expenditures	205,712	40,535	68	115,594
Auxiliary Enterprises	-	30	49,234	104
Independent Operations	1,915	140	-	-
Debt Services	181	226	98	69
Capital Outlay	6,665	3,536	285	5,017
Securities Lending	-	4	31	6
Total Expenditures	214,473	44,471	49,716	120,790
TRANSFERS IN (OUT):				
Transfers from State General Fund	100,745	-	-	-
Millage Transfers	13,840	-	-	-
Mandatory Transfers	623	(502)	(8,040)	2
Nonmandatory Transfers	(244)	164	(1,162)	10
Transfers from Primary Government	-	-	214	-
Total Transfers In (Out) (Note 13)	114,964	(338)	(8,988)	12
Net Increase (Decrease) in Fund Balances	\$ (4,947)	\$ 1,724	\$ 876	\$ 1,203

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, Helena, MT 59601.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years. Its report is issued under separate cover and available at 555 Fuller Avenue, Helena, MT 59601.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and distributive income of sole proprietors and subchapter S shareholders. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Teachers' Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 East 6th Avenue, Helena, MT 59620.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings and Montana State University-Northern. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover. The reports are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, Helena, MT 59601.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19).

Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for monies which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1998. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the state's proprietary, non-expendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Board's standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1997, is \$16.39 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources." An exception is the food stamp inventory balance in the special revenue fund which is offset by deferred revenue per GASB Statement 24.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Principle", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. All investments, except the deferred compensation plan investments and pension plan investments are reported at cost or amortized cost in the balance sheet. The deferred compensation plan investments and pension plan investments are carried at market value. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. Deferred Charges - Unamortized bond issuance costs are reported in this category.

J. Deferred Revenue - Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

K. Long-Term Obligations - Long-term obligations expected to be financed from governmental funds are accounted for in the general long-term debt account group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. Capital Leases - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financial sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

M. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1997, 959 hours were contributed to the sick leave pool and 1,272 hours were withdrawn leaving a balance of 4,754 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 per cent of unused vacation leave and 25 per cent of unused sick leave.

As of June 30, 1997, the State's liability for unused vacation and sick leave for Higher Education Funds was \$29,452,000. The leave liabilities for the remaining agencies at June 30, 1997, were \$51,793,000, an increase of \$3,722,000 over the June 30, 1996, leave liability of \$48,071,000. The following table reflects the change (in thousands):

	<u>Balance July 1, 1996</u>	<u>Leave Earned</u>	<u>Leave Used</u>	<u>Balance June 30, 1997</u>
PRIMARY GOVERNMENT				
Governmental Fund Types and Similar Trust Funds	\$ 43,942	\$ 27,924	\$ 24,556	\$ 47,310
Proprietary Fund Types and Similar Trust Funds	<u>3,387</u>	<u>2,158</u>	<u>1,870</u>	<u>3,675</u>
Total	\$ 47,329	\$ 30,082	\$ 26,426	\$ 50,985
COMPONENT UNITS				
Proprietary Fund Types and Similar Trust Funds	<u>742</u>	<u>589</u>	<u>523</u>	<u>808</u>
Total Non-Higher Education Funds	<u>\$ 48,071</u>	<u>\$ 30,671</u>	<u>\$ 26,949</u>	<u>\$ 51,793</u>

N. Encumbrances - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

O. Advances to Other Funds - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the other fund in the balance sheet account "Advance From Other Funds."

P. Fund Equity - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reserves represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

Q. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

R. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Exp. Trust Fund
Video Gaming	\$11,074	\$ 1	\$ -	\$ -	\$22,247
Insurance Premium	22,489	11,007	-	-	-
University System Millage	830	14,719	-	-	-
Cigarette/Tobacco	-	1,752	10,901	2,336	-
Inheritance/Estate	14,562	-	-	-	-
Accommodations	105	9,405	-	-	-
Alcoholic Beverage	2,203	2,412	-	-	1,490
Electrical Energy	3,849	-	-	-	-
Freight Line	6,309	-	-	-	-
Telephone License	6,045	-	-	-	-
Miscellaneous	<u>2,162</u>	<u>10,515</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER TAXES	<u>\$69,628</u>	<u>\$49,811</u>	<u>\$10,901</u>	<u>\$2,336</u>	<u>\$23,737</u>

2. BUDGETARY REPORTING

A. State Budget Process - Montana prepares two annual budgets biennially in the odd-numbered years when the legislature meets. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. During the 1997 legislative session, the legislature appropriated \$14.2 million

general fund and \$0.93 million in special revenue supplemental appropriations for fiscal year 1997. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1997 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1997, reverted appropriations for all funds were \$357.2 million of which \$20.7 million were for the General Fund and \$189.8 million were for the Special Revenue Fund. Agencies are able to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a "project-length" basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided in this CAFR.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

The State implemented GASB Statement 28 - Accounting and Financial Reporting for Securities Lending Transactions. The implementation of GASB 28 resulted in the recording of an asset for cash collateral from securities lending transactions and an offsetting liability. Also, the income and related expense resulting from securities lending transactions have been separately displayed rather than included as a component of investment income.

B. Other - The Benefits/Claims expenditure amount of \$52.195 million reported in the Component Units column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	STATE COMPENSATION INSURANCE NEW FUND	OLD FUND
Benefit and Loss Adjustment Exp.	\$ 58,376	\$ 16,313
Incr (Decr) in Actuarially Estimated Claims	<u>20,630</u>	<u>(43,124)</u>
Total Benefits/Claims	<u>\$ 79,006</u>	<u>\$(26,811)</u>

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$ 1,429,478
Equity in Pooled Investments	\$ 4,966,647
Investments	\$ 1,174,749

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4. Information in Tables 3 and 4 does not tie directly to the amounts reported in the GPFS since certain funds' investments and equity in pooled investments are reported at market value in the GPFS while other funds' investment amounts are reported at book value.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds,

their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds' investment in the STIP are reported as a cash equivalent.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 1997, that the State is aware of regarding any investments.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% of the market value of the securities on loan and maintain collateral equal to not less than 100% of the market value of the loaned security. During fiscal year 1997, the State's agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 1997, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

<u>Risk Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fund</u>
1 Insured (FDIC)	\$ 1,169	\$ 1,169	Various
Collateral held by State/State's agent	12,614	12,614	Various
2	9,746	9,746	Various
3	4,296	4,296	Various
Uncategorized:			
Undeposited Cash	681		
Cash in U.S. Treasury	115,837		
Less: Outstanding Warrants	<u>(39,233)</u>		
TOTAL CASH DEPOSITS	<u>\$105,110</u>		

As of June 30, 1997, the carrying amount of deposits for component units was \$39,800,359 and the bank balance was \$39,559,191. Of the bank balance, \$39,511,466 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and \$47,725 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 2 - CASH EQUIVALENTS (In Thousands)

	<u>Risk Category 1</u>					
	<u>Securities Not on Loan</u>	<u>On Loan for Securities Collateral*</u>	<u>Not Categorized*</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Fund</u>
Asset-Backed Securities	\$ 349,343	\$ -	\$ -	\$ 349,343	\$ 349,280	Various
Bankers' Acceptances	47,720	-	-	47,720	47,618	Various
Commercial Paper	29,878	-	-	29,878	29,716	Various
Corporate Obligations	60,006	-	-	60,006	60,016	Various
Government Securities	120,607	31,537	101,521	253,665	253,716	Various
Repurchase Agreements	135,000	-	-	135,000	135,000	Various
Variable-Rate	354,788	-	2,199	356,987	357,015	Various
Direct Investments:						
Money Markets				12,199	12,199	Various
Guaranteed Investment Contracts				79,562	79,562	Various
Other				<u>8</u>	<u>8</u>	Various
TOTAL CASH EQUIVALENTS				<u>\$1,324,368</u>	<u>\$1,324,130</u>	

Securities Lending Collateral
Investment Pool \$ 29,195 \$ 29,195 \$ 29,195

* At June 30, 1997, the underlying securities, with market values of \$31,558,694 and \$103,740,764, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

As of June 30, 1997 local governments invested \$321,093,643 in the STIP.

As of June 30, 1997, component units of the State of Montana had investments in cash equivalents with a book value and market value of \$256,631,787.

C. Equity in Pooled Investments - Consists of investments held by pooled investment funds. The Montana Stock Pool (MONTCOMP), Trust Fund Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), and Montana International Pool (MTIP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds and the Deferred Compensation Plan. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 3 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Market Value
MONTCOMP:					
Corporate Stocks	\$ 986,286	\$ 38	\$ 91,629	\$ 1,077,953	\$ 1,739,164
Preferred Stocks	1,000	-	-	1,000	1,185
TFBP:					
Corporate Asset Backed	19,548	-	-	19,548	19,792
Corporate Stocks	518,165	-	7,304	525,469	539,825
US Govt. Mortgage Backed	51,345	-	-	51,345	51,368
US Govt. Direct	92,677	9,051	107,065	208,793	214,189
Yankee Bonds	51,467	-	1,987	53,454	55,758
State and Local Government	21,934	-	-	21,934	21,890
RFBP:					
Corporate Asset Backed	54,844	-	-	54,844	55,350
Corporate Stocks	955,822	-	18,801	974,623	996,683
US Govt. Mortgage Backed	107,595	-	-	107,595	109,042
US Govt. Direct	176,470	19,475	263,412	459,357	469,123
Yankee Bonds	104,002	-	-	104,002	107,920
MTIP:					
BOI Internal International	41,690	-	9,072	50,762	54,509
Schroder Capital Management	33,480	472	1,203	35,155	38,470
Yamaichi Capital Management	<u>30,784</u>	<u>261</u>	<u>3,135</u>	<u>34,180</u>	<u>36,916</u>
TOTAL EQUITY IN POOLED INVESTMENTS	<u>\$3,247,109</u>	<u>\$29,297</u>	<u>\$ 503,608</u>	<u>\$3,780,014</u>	<u>\$4,511,184</u>
Securities Lending Collateral Investment Pool			<u>\$ 589,703</u>	<u>\$ 589,703</u>	<u>\$ 589,703</u>

* At June 30, 1997, these underlying securities, with market values of \$29,127,687 and \$566,785,759, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 1997, component units of the State of Montana had equity in pooled investments with a book value of \$1,048,832,559 and a market value of \$1,550,017,827.

D. Investments - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 77% of those investments; the Board of Housing, 16%; and the Department of Administration's Personnel Division, 6% for the State's Deferred Compensation Plan. Additionally, the Higher Education Units manage 1% of total investments for bond related activities.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan and pension plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1997. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to \$150,000,000. The leveraged buyout invested balance for the pension funds amounted to \$53,577,492 on June 30, 1997.

For the purpose of portfolio diversification, the Board has committed \$57,618,000 for venture capital investments administered by Brinson Partners. The June 30, 1997, venture capital invested balance totaled \$8,083,179 for the Teachers' Retirement and \$9,879,318 for the Public Employees' Retirement systems.

In September 1991, the board committed \$5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1997, the invested balance in America's Mortgage Servicing, Inc., for both the Teacher's Retirement and the Public Employees' Retirement Systems was zero. The mortgage servicing rights were sold on June 30, 1997 with the Public Employees' Retirement and Teachers' Retirement Systems realizing gains of \$1,559,349 and \$1,275,831, respectively.

TABLE 4 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

	<u>Risk Category 1</u>					
	<u>Securities</u>	<u>On Loan for</u>	<u>Risk</u>	<u>Not</u>	<u>Carrying</u>	<u>Market</u>
	<u>Not On</u>	<u>Securities</u>	<u>Category 2</u>	<u>Categorized*</u>	<u>Amount</u>	<u>Value</u>
	<u>Loan</u>	<u>Collateral*</u>				
PRIMARY GOVERNMENT						
Corporate Bonds	\$ 19,263	\$ -	\$ -	\$ 1,233	\$ 20,496	\$ 20,565
Corporate Asset-Backed	3,082	-	-	-	3,082	3,072
Government Securities	18,411	9	-	42,153	60,573	60,809
Government Mortgage-Backed	-	-	-	-	-	-
Other	697	-	-	-	697	727
Total	<u>\$ 41,453</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 43,386</u>	<u>\$ 84,848</u>	<u>\$ 85,173</u>
COMPONENT UNITS						
Corporate Bonds	\$ 172,904	\$ -	\$ -	\$ 4,293	\$ 177,197	\$ 179,731
Corporate Asset-Backed	65,591	-	-	-	65,591	65,605
Government Securities	64,887	-	104,592	90,544	260,023	262,691
Government Mortgage-Backed	35,802	-	-	-	35,802	35,949
Other	4,995	-	79,509	-	84,504	84,771
Total	<u>344,179</u>	<u>-</u>	<u>184,101</u>	<u>94,837</u>	<u>623,117</u>	<u>628,747</u>
TOTAL	<u><u>\$ 385,632</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ 184,101</u></u>	<u><u>\$ 138,223</u></u>	<u><u>\$ 707,965</u></u>	<u><u>\$ 713,920</u></u>

Direct Investments:

PRIMARY GOVERNMENT		
Real Estate	\$ 2,446	\$ 2,531
Commercial Loans	118,415	118,363
Mortgages	92,198	92,614
Other	41,533	54,741
Deferred Compensation	72,282	72,588
Total	<u>\$ 326,874</u>	<u>\$ 340,837</u>

COMPONENT UNITS		
Real Estate	\$ 2,446	\$ 2,531
Commercial Loans	4,545	4,501
Mortgages	78,509	78,864
Other	30,837	40,051
Total	<u>116,337</u>	<u>125,947</u>
TOTAL INVESTMENTS	<u><u>\$ 1,151,176</u></u>	<u><u>\$ 1,180,704</u></u>

Securities Lending Collateral		
Investment Pool	<u><u>\$ 284,724</u></u>	<u><u>\$ 284,724</u></u>

At June 30, 1997, the underlying securities, with market values of \$16,176,083 and \$214,900,371, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below.

Changes in fixed asset balances for the fiscal year ended June 30, 1997, are reflected in the following table (in thousands):

PRIMARY GOVERNMENT

	<u>Balance July 1, 1996</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 1997</u>
<u>PROPRIETARY FUNDS</u>				
Land	\$ 1,138	\$ 5	\$ 107	\$ 1,036
Buildings/Improvements	5,439	70	9	5,500
Equipment	131,274	11,916	6,507	136,683
Other Fixed Assets	1,397	3	-	1,400
Construction in Progress	353	3,034	1,715	1,672
Subtotal/Total	139,601	<u>\$ 15,028</u>	<u>\$ 8,338</u>	146,291
Accumulated Depreciation	(76,992)			(83,355)
Total	<u>\$ 62,609</u>			<u>\$ 62,936</u>

	<u>Balance July 1, 1996</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 1997</u>
<u>NONEXPENDABLE TRUST FUNDS</u>				
Land	\$ 49,399	\$ -	\$ 1	\$ 49,398
Other Fixed Assets	-	2	-	2
Total	<u>\$ 49,399</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 49,400</u>

<u>PENSION TRUST FUNDS</u>				
Land	\$ 25	\$ -	\$ -	\$ 25
Buildings/Improvements	277	-	-	277
Equipment	133	17	5	145
Subtotal/Total	435	<u>\$ 17</u>	<u>\$ 5</u>	447
Accumulated Depreciation	(191)			(211)
Total	<u>\$ 244</u>			<u>\$ 236</u>

<u>GENERAL FIXED ASSETS ACCOUNT GROUP</u>				
Land	\$ 59,073	\$ 3,982	\$ 410	\$ 62,645
Buildings/Improvements	293,362	18,798	5,604	306,556
Equipment	105,995	16,075	10,378	111,692
Other Fixed Assets	44,438	4,293	52	48,679
Construction in Progress	7,783	13,761	7,263	14,281
Total	<u>\$ 510,651</u>	<u>\$ 56,909</u>	<u>\$ 23,707</u>	<u>\$ 543,853</u>

COMPONENT UNITS

<u>PROPRIETARY FUNDS</u>				
Equipment	\$ 3,804	<u>\$ 431</u>	<u>\$ 82</u>	\$ 4,153
Accumulated Depreciation	(1,736)			(2,237)
Total	<u>\$ 2,068</u>			<u>\$ 1,916</u>

<u>PENSION TRUST FUND</u>				
Land	\$ 35	\$ -	\$ -	\$ 35
Buildings/Improvements	158	-	-	158
Equipment	208	23	-	231
Subtotal/Total	401	<u>\$ 23</u>	<u>\$ -</u>	424
Accumulated Depreciation	(214)			(242)
Total	<u>\$ 187</u>			<u>\$ 182</u>

<u>HIGHER EDUCATION FUNDS</u>				
Land	\$ 13,293	\$ 67	\$ 50	\$ 13,310
Buildings/Improvements	303,733	51,501	4,093	351,141
Equipment	127,276	20,352	7,190	140,438
Other Fixed Assets	74,149	5,378	459	79,068
Construction in Progress	80,871	24,861	9,434	96,298
Intangible Assets	2,247	1,239	185	3,301
Total	<u>\$ 601,569</u>	<u>\$ 103,398</u>	<u>\$ 21,411</u>	<u>\$ 683,556</u>

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan

governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,583 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	<u>TIAA-CREF</u> <u>(in thousands)</u>
Covered Payroll	\$ 54,780
Total Payroll	198,768
Employer Contributions	\$ 2,714
Percent of Covered Payroll	4.956%
Employee Contributions	\$ 3,820
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees' Retirement Division administers eight defined benefit plans - Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Judges' Retirement System (JRS), Game Wardens' Retirement System (GWRS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters' Compensation Act (VFCA). The division prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS, and VFCA. That report may be obtained by writing to the Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131.

The Teachers' Retirement Division administers one defined benefit plan - Teachers' Retirement System (TRS). The publicly issued financial report that includes financial statements and required supplementary information for TRS may be obtained by writing to the Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, Montana 59620-0139.

PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS and VFCA are considered part of the state of Montana's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the trust and agency fund type.

TRS is considered part of the state of Montana's financial reporting entity and is included in the accompanying financial statements as a discretely presented component unit Pension Trust Fund.

A summary of government employers participating in PERS, SRS, MPORS, FURS and TRS by employer type at June 30, 1997 follows:

Retirement System					
	PERS	SRS	MPORS	FURS	TRS
Employers					
State Agencies	36				6
Counties	55	55			
Cities/Towns	88		19	14	
Colleges/Universities	6				12
School Districts	232				397
Other	79				
Total	496	55	19	14	415

B. Plan Descriptions

The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWRS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years until June 30, 2005, after which the amortization period is not to exceed 30 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service. The current actuarial valuation indicates a material increase in retirees which increases the inactive liability resulting in a longer period of time being required to fund that liability. During the year ended June 30, 1996, actual contributions did not cover the year's normal cost.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary and the State contributes 8.15% of active game wardens's salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases based on members' years of service, age and option chosen at the time of retirement. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs, as well as all State Department of Justice investigators hired after July 1, 1993. The member contribution is 7.865% of salary; the employer contribution is 8.53% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.0834% of the final average salary for each year of creditable service plus an additional 1.35% of the final average salary for each year of creditable service in excess of 24 years. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Investment earnings in excess of 8%, if any, are used to provide post-employment increases. Rights are vested after 5 years of service if involuntarily terminated, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% of salary for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for all paid firefighters. The member contribution is 7.8% of base compensation, and city contributions are 14.36% of total annual compensation. The State contribution is 24.21% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum service is 20 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to ½ of the final monthly compensation received plus an additional 2% for each year in excess of 20 years. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and for members hired on or after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 10 years of qualified service.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various pricing services. The retirement systems have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the retirement systems' net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees' Retirement System has outstanding contributions for two early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the member's behalf, up to three years of "1-for-5" additional service for any retirement eligible member who terminated employment during the window. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The 1995 Montana Legislature provided a new provision of the Employee Protection Act (HB 490) allowing state employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1997, to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1997, 78 employees have taken advantage of this provision.

The employer has up to 10 years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1997 were \$1,575,365. Fiscal Year 1997 outstanding balances were \$734,088 (HB 517), and \$592,369 (HB 490).

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS.

G. Net Pension Obligation

The Judges' Retirement System (JRS) net pension obligation (NPO) for fiscal year 1997 is as follows (in thousands):

Annual required contribution	\$ 1,212
Interest on NPO	219
Adjustment to the annual required contribution	<u>(303)</u>
Annual pension cost	1,128
Contribution made	<u>(780)</u>
Increase in NPO	348
NPO beginning of year	<u>2,738</u>
NPO end of year	<u>\$ 3,086</u>

H. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems			
	HPORS	JRS	GWRS
Annual pension cost	\$ 3,160	\$ 1,128	\$ 494
Contributions			
Employer	\$ 1,641	\$ 177	\$ 250
Employee	586	207	244
License and Registration fees	932	-	-
Court fee	-	603	-
Actuarial valuation date	7/01/97	7/01/97	7/01/97
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	20.5	30.00	3.48
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increases (includes inflation factor)	6.00%	6.00%	6.00%
Postretirement benefit increases	None	None	None

Single Employer Systems			
Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
HPORS			
06/30/96	\$ 3,163	100%	NONE
06/30/97	\$ 3,160	100%	NONE
JRS			
06/30/96	\$ 1,092	90.75%	\$2,738
06/30/97	\$ 1,128	87.50%	\$3,086
GWRS			
06/30/96	\$ 457	100%	NONE
06/30/97	\$ 494	100%	NONE

Multiple Employer Systems			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
PERS			
06/30/95	\$ 40,348	100%	NONE
06/30/96	40,776	100%	NONE
06/30/97	43,182	100%	NONE
MPORS			
06/30/95	\$ 4,318	100%	NONE
06/30/96	4,770	100%	NONE
06/30/97	7,355	100%	NONE
FURS			
06/30/95	\$ 4,158	100%	NONE
06/30/96	4,433	100%	NONE
06/30/97	6,811	100%	NONE
SRS			
06/30/95	\$ 1,222	100%	NONE
06/30/96	1,527	100%	NONE
06/30/97	1,618	100%	NONE
TRS			
06/30/95	\$ 39,073	100%	NONE
06/30/96	40,627	100%	NONE
06/30/97	41,640	100%	NONE

I. Schedules of Funding Progress

Single Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/94	\$40,466	\$63,327	\$22,861	63.90%	\$5,650	404.60%
07/01/96	47,325	67,709	20,384	69.90%	6,242	326.57%
07/01/97	50,136	67,838	17,702	73.91%	6,292	281.34%
JRS						
07/01/94	\$21,281	\$23,171	\$ 1,890	91.84%	\$2,777	68.06%
07/01/96	24,944	27,723	2,779	89.98%	2,907	95.61%
07/01/97	26,392	27,723	1,331	95.20%	2,953	45.07%
GWRS						
07/01/94	\$16,297	\$16,389	\$ 92	99.44%	\$2,494	3.70%
07/01/96	18,160	17,325	(835)	104.82%	2,762	(30.23)%
07/01/97	19,343	17,918	(1,425)	107.95%	2,974	(47.92)%

Multiple Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/94	\$1,366,864	\$1,625,720	\$258,856	84.08%	\$572,974	45.18%
07/01/96	1,629,706	1,826,207	196,500	89.24%	608,592	32.29%
07/01/97	1,742,525	1,961,469	218,944	88.84%	644,509	33.97%
MPORS						
07/01/94	\$ 56,209	\$ 90,507	\$ 34,298	62.10%	\$ 13,395	256.05%
07/01/96	70,068	105,664	35,596	66.31%	15,828	224.90%
07/01/97	71,983	110,098	33,810	68.04%	16,819	201.02%
FURS						
07/01/94	\$ 54,647	\$ 113,153	\$ 58,506	48.29%	\$ 12,424	470.90%
07/01/96	67,745	131,111	63,366	51.67%	13,783	459.75%
07/01/97	67,846	134,479	66,633	50.45%	14,501	459.51%
SRS						
07/01/94	\$ 55,220	\$ 42,978	\$ (12,242)	128.48%	\$ 15,869	(77.14)%
07/01/96	68,647	52,751	(15,895)	130.13%	17,890	(88.85)%
07/01/97	73,240	52,792	(20,448)	138.73%	18,952	(107.89)%
TRS						
07/01/92	\$ 954,542	\$1,533,883	\$579,341	62.2%	\$465,063	124.5%
07/01/94	1,157,512	1,712,933	555,421	67.6%	472,860	117.4%
07/01/96	1,376,716	1,939,569	562,853	71.0%	501,516	112.2%

Nonemployer Contributor						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/93	\$ 8,760	\$15,211	\$6,451	57.59%	N/A	N/A
07/01/96	11,504	16,636	5,132	69.15%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1997, 101 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between \$102 and \$320 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1997, 2,843 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$9,754,257 were

recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$7,287,468 leaving \$2,466,789 of claims in excess of premium revenue that was paid by the State.

In accordance with 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan (ORP). Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$120 and \$338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual \$250 deductible, MUS reimburses 80% of the first \$3,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare even if the member is not enrolled in Medicare. As of June 30, 1997, 1,248 retirees are enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1997, estimated expenditures of \$2,815,617 were recognized for postemployment health care benefits. Of this amount, \$2,423,738, was covered by premiums paid by retirees and \$391,879 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary toward retirement while deferring the State and Federal income taxes until future years. The compensation deferred is not available to employees until separation from State service, retirement, death or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance is required by January 1, 1999.

All employees of the State, including the Montana University System and contracted employees, are eligible to participate. Participating employees are able to invest their deferrals in two primary options: 1) a "fixed" or stable value option which guarantees both principal (the payroll deferral) and a quarterly rate of earnings; and 2) a "variable" option which currently consists of twenty-three (23) mutual funds. Participating employees are allowed to utilize both options and, under the variable option, as many of the offered mutual funds as they choose. As of June 30, 1997, the net assets of the Plan were \$139.131 million.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. The Hail Insurance program issued 2,282 policies during the 1997 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$504,723 based on estimated claims through June 30, 1997. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,127 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1997, the amount of this liability is estimated to be \$1,153,735.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 24,823 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1997, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1997, \$344,632,133 of unpaid claims and claim adjustment expenses are presented at their net present value of \$315,107,230. These claims are discounted at an annual rate of 4.0%.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) State Compensation Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims. An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1997, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1997, \$205,678,392 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

<u>Primary Government</u>	<u>HAIL INSURANCE</u>		<u>SUBSEQUENT INJURY</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 618	\$ 643	\$ 1,022	\$1,039
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	3,064	3,116	-	-
Increase (Decrease) in provision for insured events of prior years	(31)	4	402	333
Total incurred claims and claim adjustment expenses	<u>3,033</u>	<u>3,120</u>	<u>402</u>	<u>333</u>

<u>Primary Government</u>	<u>HAIL INSURANCE</u>		<u>SUBSEQUENT INJURY</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(2,498)	(2,498)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(648)</u>	<u>(647)</u>	<u>(270)</u>	<u>(350)</u>
Total payment	<u>(3,146)</u>	<u>(3,145)</u>	<u>(270)</u>	<u>(350)</u>
Total unpaid claims and claim adjust. exp. at end of the year	<u>\$ 505</u>	<u>\$ 618</u>	<u>\$ 1,154</u>	<u>\$ 1,022</u>
<u>Component Units</u>	<u>STATE COMPENSATION INSURANCE (NEW FUND)</u>		<u>STATE COMPENSATION INSURANCE (OLD FUND)</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$402,714</u>	<u>\$541,374</u>	<u>\$248,802</u>	<u>\$295,749</u>
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	81,046	102,102	-	-
Increase (Decrease) in provision for insured events of prior years	<u>(80,752)</u>	<u>(169,235)</u>	<u>(26,812)</u>	<u>(24,688)</u>
Total incurred claims and claim adjustment expenses	<u>294</u>	<u>(67,133)</u>	<u>(26,812)</u>	<u>(24,688)</u>
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(12,590)	(15,818)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(45,786)</u>	<u>(55,709)</u>	<u>(16,312)</u>	<u>(22,259)</u>
Total payment	<u>(58,376)</u>	<u>(71,527)</u>	<u>(16,312)</u>	<u>(22,259)</u>
Total unpaid claims and claim adjust. exp. at end of the year	<u>\$344,632</u>	<u>\$402,714</u>	<u>\$205,678</u>	<u>\$248,802</u>

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 6 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

STATE COMPENSATION INSURANCE (NEW FUND)							
	1991	1992	1993	1994	1995	1996	1997
1. Net earned required contribution and investment revenues	\$115,656	\$151,256	\$195,216	\$208,736	\$174,015	\$121,646	\$88,014
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090	11,303	16,114	11,374
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890	173,327	102,102	81,046
4. Paid (cumulative) as of:							
End of policy year	17,618	20,244	18,347	18,693	18,137	15,818	12,589
One year later	44,335	50,576	46,343	45,947	40,473	32,890	
Two years later	64,079	68,837	62,717	60,971	52,073		
Three years later	74,901	77,950	71,666	67,576			
Four years later	81,747	83,173	76,280				
Five years later	85,924	86,461					
Six years later	88,532						
5. Reestimated incurred claims and expense:							
End of policy year	137,237	183,425	186,480	199,890	173,327	102,102	81,046
One year later	166,980	184,968	184,030	184,920	124,123	88,923	
Two years later	160,272	175,218	167,052	135,472	107,074		
Three years later	151,554	161,184	133,017	116,756			
Four years later	141,389	135,775	120,583				
Five years later	130,250	125,084					
Six years later	121,568						
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(15,669)	(58,341)	(65,897)	(83,134)	(66,253)	(13,179)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1997, estimates for claims liabilities, which include incurred but not reported claims, are \$7,155,542 and are based on a formula provided by The Segal Company, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. Blue Cross/Blue Shield is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is estimated to be \$3,700,000 as of June 30, 1997, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of equipment below \$150,000 of value, with State agencies paying the first \$1,000. Commercial property insurance protects approximately \$1.8 billion of State-owned buildings and contents. The State property insurance includes earthquake and flood protection to \$100 million annually with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A biennial actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 through 6/30/97, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1997, estimated claims liability of \$12,825,397, discounted at 11.1%, includes those claims incurred but not reported and is reported in the accompanying financial statements (See Note 14).

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1997	1996	1997	1996	1997	1996
Amount of claims liabilities at the beginning of each fiscal year	\$ 6,959	\$ 6,760	\$ 3,100	\$ 3,200	\$14,980	\$19,329
Incurred claims:						
Provision for insured events of the current year	40,157	38,372	20,928	18,264	4,520	5,326
Increases (Decreases) in provision for insured events of prior years	197	199	600	(100)	(2,037)	(5,418)
Total incurred claims	<u>40,354</u>	<u>38,571</u>	<u>21,528</u>	<u>18,164</u>	<u>2,483</u>	<u>(92)</u>
Payments:						
Claims attributable to insured events of the current year	(40,157)	(38,372)	(20,928)	(18,264)	(1,075)	(920)
Claims attributable to insured events of prior years	-	-	-	-	(3,563)	(3,337)
Total Payments	<u>(40,157)</u>	<u>(38,372)</u>	<u>(20,928)</u>	<u>(18,264)</u>	<u>(4,638)</u>	<u>(4,257)</u>
Total claims liability at end of each fiscal year	<u>\$ 7,156</u>	<u>\$ 6,959</u>	<u>\$ 3,700</u>	<u>\$ 3,100</u>	<u>\$12,825</u>	<u>\$14,980</u>

10. COMMITMENTS

A. Highway Construction - At June 30, 1997, the Department of Transportation had contractual commitments of approximately \$140.3 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1997, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$37.5 million for capital projects construction. The Primary Government will fund \$25.4 million of these projects with the remaining \$12.1 million coming from higher education funds.

C. Proprietary Fund Commitments - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

Enterprise Funds	AMOUNT
Liquor Stores	\$ 24
Hail Insurance	3
Uninsured Employers	6
Historical Society Publications	10
Local Government Audits	8
Subtotal-Enterprise Funds	<u>\$ 51</u>
Internal Service Funds	
Highway Equipment	\$ 321
ISD	134
Admin. Insurance	9
FWP Equipment	10
Admin. Supply	125
Publications & Graphics	10
Buildings & Grounds	268
Labor Central Services	25
Commerce Central Services	1
DEQ Indirect Cost Pool	72
FWP Warehouse Inventory	20
Mail & Messenger	2
Investment Division	22
OPI Central Services	2
Admin. DP Unit	1
Subtotal-Internal Service Funds	<u>\$ 1,022</u>
Total-Primary Government	<u>\$ 1,073</u>

COMPONENT UNITS

Housing Authority	\$ 1
Health Facilities Authority	2
Worker's Comp - New Fund	<u>372</u>
Subtotal-Component Units	<u>\$ 375</u>
Total-Proprietary Fund Types-Reporting Entity	<u>\$ 1,448</u>

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases follow (in thousands):

	Balance July 1, 1996	Additions (Deductions)	Balance June 30, 1997
Primary Government			
General Long-Term Obligations	<u>\$ 2,077</u>	<u>\$ (410)*</u>	<u>\$ 1,667</u>
Proprietary Fund Types			
Enterprise Fund	<u>\$ 10</u>	<u>\$ (8)</u>	<u>\$ 2</u>
Internal Service Fund	<u>2,335</u>	<u>262</u>	<u>2,597</u>
Total Proprietary	<u>2,345</u>	<u>254</u>	<u>2,599</u>
Total-Primary Government	<u>\$ 4,422</u>	<u>\$ (156)</u>	<u>\$ 4,266</u>
Component Units			
Pension Trust Fund	<u>\$ 31</u>	<u>\$ (21)</u>	<u>\$ 10</u>
Higher Education Funds	<u>1,802</u>	<u>(212)</u>	<u>1,590</u>
Total-Component Units	<u>\$ 1,833</u>	<u>\$ (233)</u>	<u>\$ 1,600</u>
Total Capitalized Leases/ Installment Purchases	<u>\$ 6,255</u>	<u>\$ (389)</u>	<u>\$ 5,866</u>

*This amount consists of \$248,000 of additions as inceptions; \$125,000 of additions as adjustments; and \$783,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government			Component Units		
	General Long-Term Obligations	Proprietary Fund Types Enterprise	Internal Service	Pension Trust	Higher Education Funds	Totals
1998	\$ 857	\$ 1	\$ 1,431	\$ 10	\$ 825	\$ 3,124
1999	636	1	934	-	613	2,184
2000	434	-	363	-	252	1,049
2001	54	-	33	-	61	148
2002	-	-	16	-	19	35
2003+	-	-	-	-	-	-
Total minimum pmts	<u>\$ 1,981</u>	<u>\$ 2</u>	<u>\$ 2,777</u>	<u>\$ 10</u>	<u>\$ 1,770</u>	<u>\$ 6,540</u>
Less: Interest	<u>(314)</u>	<u>-</u>	<u>(180)</u>	<u>-</u>	<u>(180)</u>	<u>(674)</u>
Present value of minimum payments	<u>\$ 1,667</u>	<u>\$ 2</u>	<u>\$ 2,597</u>	<u>\$ 10</u>	<u>\$ 1,590</u>	<u>\$ 5,866</u>

B. Operating Leases - Total rental payments for operating leases in fiscal year 1997 were \$6,359,512. Future rental payments for operating leases are as follows (in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1998	\$ 6,174
1999	4,805
2000	3,274
2001	2,416
2002	1,606
2003+	<u>3,635</u>
Total future rental payments	<u>\$ 21,910</u>

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. The amounts issued and outstanding at June 30, 1997, are as follows (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Balance June 30, 1997</u>
1991	\$ 5,000	\$ 4,805
1992	6,500	6,355
1994	7,500	7,345
1995	7,500	7,405
1997	10,000	<u>10,000</u>
TOTAL		<u>\$35,910</u>

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1997, is as follows (in thousands):

<u>General Obligation Debt</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Range (%)</u>	<u>Principal Payments</u>		<u>Balance June 30, 1997</u>
				<u>FY 1998</u>	<u>In Year of Maturity (11)</u>	
Long-Range Bldg Program	1985A	\$ 8,550	8.0	\$ 125	\$150 (2001)	\$ 550
Water Development Program (1)	1988	500	9.4	20	50 (2009)	385
Water Development Program (1)	1989B	500	8.55	20	50 (2010)	410
Water Development Program (1)	1991A	750	8.0	40	90 (2007)	605
Wastewater Treatment Works	1991B	2,595	5.6-6.8	80	215 (2014)	2,315
GO Refunding	1992	31,330	4.7-6.2	55	390 (2010)	5,010
Energy Conservation Program (2)	1993A	1,500	4.0-4.75	140	180 (2004)	1,110
Long-Range Bldg Program	1993B	3,185	3.3-4.25	370	310 (2004)	2,145
Renewable Resource Development(1)	1993C	750	4.55-5.65	70	95 (2004)	565
Long-Range Bldg Program	1994A	22,540	4.2-6.0	795	1,725 (2014)	20,330
Wastewater Treatment Works	1994B	2,200	4.4-6.1	65	180 (2016)	2,135

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 1997
				FY 1998	In Year of Maturity (11)	
Long-Range Bldg Program	1994C	21,955	5.125-7.0	705	1,790 (2015)	20,630
Energy Conservation Program (2)	1994D	1,600	4.9-6.25	140	200 (2005)	1,340
Renewable Resource Development (1)	1994E	750	7.7-8.5	60	105 (2005)	640
Energy Conservation Program (2)	1996A	1,650	3.6-4.4	140	195 (2006)	1,485
Renewable Resource Development (1)	1996B	1,250	5.35-6.1	100	155 (2006)	1,125
Wastewater Treatment Works	1996C	2,765	3.75-5.75	55	120 (2017)	2,765
Long-Range Bldg Program	1996D	30,075	5.25-6.0	-		30,075
Renewable Resource Development (1)	1996E	1,000	6.95-8.0	-		1,000
Renewable Resource Development (1)	1997A	<u>2,000</u>	6.8-8.0	<u>-</u>		<u>2,000</u>
Total General Obligation Debt		<u>\$ 137,445</u>		<u>\$ 2,980</u>		<u>\$ 96,620</u>

Special Revenue Bonds

Department of Transportation	1987	\$ 37,955	6.25	\$ 9,795	\$9,795 (1998)	\$ 9,795
Water Conservation (3)	-	100	3.463-5.0	3	3 (2016)	64
Water Development Program (4)	1987C	1,215	6.8-7.6	50	120 (2008)	895
Broadwater Power Project (4)(6)	1990A	3,800	9.5	360	505 (2002)	2,155
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	4.75-6.1	805	1,250 (2006)	9,055
Water Development Program (4)	1992B	9,375	4.5-6.0	320	795 (2013)	8,230
Department of Transportation	1993	72,375	4.25-5.05	2,000	3,705 (2004)	65,375
Renewable Resource Program (4)	1996A	14,985	3.85-5.2	910	110 (2017)	14,135
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	30	110 (2017)	1,205
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	80	210 (2017)	2,660
Developmental Center Project (10)	1994	<u>13,100</u>	4.9-6.4	<u>305</u>	1,015 (2019)	<u>12,740</u>
Total Special Revenue Bonds		<u>\$190,460</u>		<u>\$14,658</u>		<u>\$148,044</u>
Middle Creek Dam Project (7)		\$ 2,990	8.125	\$ 32	124 (2034)	\$ 3,171
Treasure State Endowment (8)		4,134	5.85	420	779 (2001)	3,136
Natural Resource Damage Lit. Pgm. (9)		9,816	-	-	-	9,816
Dept. of Justice INTERCAP Loan (12)		500	4.85	50	50 (2007)	500
Public Health and Human Services INTERCAP Loan (12)		<u>2,162</u>	6.60	<u>-</u>	<u>-</u>	<u>2,162</u>
Total Notes Payable		<u>\$ 19,602</u>		<u>\$ 502</u>		<u>\$ 18,785</u>
Total Special Revenue Debt						<u>\$166,829</u>

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) First payment of \$795,000 is due in 2003.
- (6) Bonds were sold to the Montana Board of Investments.
- (7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$269,804 of interest owed.
- (8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.
- (9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
- (10) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project.
- (11) Year of Maturity refers to fiscal year.
- (12) Montana Board of Investments loans to Departments from the INTERCAP loan program.

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 1997
				FY 1998	In Year of Maturity	
University of Montana-Missoula (U of M)	1993A/1995B/ 1995C/1996D	\$ 94,607	3.4-6.9	\$2,284	\$ 5,632 (2019)	\$ 89,572
Montana State University-Bozeman (MSU)	1987A/1993A/ 1996D/1996B	74,082	3.65-8.0	1,905	15,340 (2022)	71,012
Montana Tech of the U of M	1995C/1996D	13,077	3.8-5.75	350	547 (2018)	12,767
MSU - Billings	1996D	16,680	3.6-5.625	260	1,070 (2026)	16,215
MSU - Northern	1994C	2,890	4.25-6.0	95	100 (2015)	2,640
Western Montana College of the U of M (WMC)	1993A/1995B/ 1995C/1996D	7,378	3.4-6.9	74	536 (2019)	7,158
Helena College of Technology of The University of Montana (HCT)	1995B/1995C	<u>767</u>	4.1-6.4	<u>41</u>	51 (2018)	<u>707</u>
		<u>\$209,481</u>		<u>\$5,009</u>		\$200,071
Add: Unamortized Premium						23
Less: Unamortized Discount						<u>(2,383)</u>
Total Higher Education Bonded Debt						<u>\$197,711</u>

Higher Ed Nonbonded Debt

U of M - Missoula, Bookstore Note	\$ 500	Variable	\$ -	\$ 500 (2005)	\$ 500
U of M - Missoula, INTERCAP Program Note	623	Variable	75	97 (2007)	568
U of M - First Interstate Mortgage	281	8.5	6	28 (2017)	281
MSU - Bozeman, Fiber Note	746	5.9	137	98 (2002)	685
MSU - Billings, SD #2 Note	876	N/A	95	95 (1999)	190
MSU - Northern, INTERCAP Program Note	1,269	Variable	172	189 (2007)	1,233
WMC - UM, INTERCAP Program Note	98	Variable	34	18 (2000)	67
WMC - UM, Mortgages Payable	70	6.5	3	6 (2009)	61
WMC - UM, Kurtz Property Payable	105	6.45	3	61 (2009)	104
MSU - College of Technology, Great Falls, Note	<u>100</u>	5.38	<u>19</u>	22 (2001)	<u>82</u>

Total Higher Education Nonbonded Debt \$ 4,668 \$ 544 \$ 3,771

TOTAL HIGHER EDUCATION FUNDS \$201,482

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non- Bonded Debt	Total Requirements
1998	\$ 9,189	\$ 22,354	\$ 13,804	\$ 1,391	\$ 46,738
1999	9,564	20,850	14,420	1,331	46,165
2000	9,415	20,809	14,595	12,030	56,849
2001	9,369	20,772	14,619	1,335	46,095
2002	9,187	20,750	14,638	2,321	46,896
2003+	<u>102,083</u>	<u>102,437</u>	<u>261,526</u>	<u>7,046</u>	<u>473,092</u>
Totals	<u>\$ 148,807</u>	<u>\$207,972</u>	<u>\$333,602</u>	<u>\$25,454</u>	<u>\$ 715,835</u>

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 1997, is as follows (in thousands):

	Balance July 1, 1996	Additions	Reductions	Balance June 30, 1997
Early Retirement Benefits	\$ 520	\$ 813	\$ 89	\$ 1,244
Arbitrage Rebate Tax	28	56	11	73
Net Pension Obligation	2,738	336	-	3,074
General Obligation Debt	\$ 69,620	\$ 33,075	\$ 6,075	\$ 96,620
Special Revenue Debt	<u>173,877</u>	<u>7,280</u>	<u>14,328</u>	<u>166,829</u>
Totals	<u>\$ 246,783</u>	<u>\$ 41,560</u>	<u>\$ 20,503</u>	<u>\$ 267,840</u>

D. Early Retirement Benefits Note

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed nine years at an interest rate of eight percent. Debt Service requirements are as follows (in thousands):

	<u>Principal Payments</u>		<u>Balance</u>
	<u>FY 1998</u>	<u>In Year of Maturity</u>	<u>June 30, 1997</u>
Primary Government:			
General Obligation Debt	\$ 124	\$ 207	\$1,244
Component Unit:			
Higher Education Units	<u>11</u>	<u>16</u>	<u>82</u>
TOTAL	<u>\$ 135</u>	<u>\$ 223</u>	<u>\$1,326</u>

E. Early Bond Redemption

On October 3, 1996, the State Compensation Insurance (Old Fund), a Component Unit of the State of Montana, deposited \$99,384,056 of cash available from a cash dividend, the bond reserve fund and funds in excess of the amount needed to pay Old Fund claims, with an escrow agent to be invested in federal securities to provide for future debt service requirements. The escrow is irrevocable, but the Montana Board of Investments has retained the right to call the bonds prior to maturity if the value of the escrow is sufficient to do so. The transaction met the requirements of a legal defeasance and the balance of \$97,885,000 of Payroll Tax bonds, maturing on June 1, 2020, was removed from the Old Fund's financial statements. The Old Fund recognized an extraordinary loss on extinguishment of debt of \$3,208,210.

On January 2, 1997, the State Compensation Insurance (Old Fund), a Component Unit of the State of Montana, wired \$32,504,037 of cash available from a cash dividend, the bond reserve fund and funds in excess of the amount needed to pay Old Fund claims, to the trustee as final principal and interest payments on the series 1993 Variable-Rate Payroll Tax bonds. The balance of \$32,500,000 of Variable-Rate Payroll Tax Bonds was removed from the Old Fund's financial statements. The early payment of this debt resulted in an extraordinary loss on extinguishment of debt of \$326,990.

F. Refunded Bonds

On June 4, 1997, the Housing Authority, a Component Unit of the State of Montana, issued \$91,360,000 Single Family Program Bonds, Series 1997A. A portion of these proceeds were deposited with an escrow agent to refund the 1977A, 1977B, 1978A, 1987A and 1987B bond issues. These series had a total of \$31,360,000 of bonds outstanding. On July 3, 1997, the escrow agent redeemed all bonds outstanding in the refunded series. The Housing Authority deferred \$17,595 of costs related to the refundings of the 1977A, 1977B, 1978A, 1987A and 1987B bonds. These deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The 1997A refunding resulted in an economic gain of \$1,609,593 and a difference in cash flows of \$(41,909,140).

On August 21, 1996, Montana State University (MSU), a Component Unit of the State of Montana, issued \$16,680,000 of Facilities Improvement and Refunding Bonds, 1996 Series D, for MSU - Billings, with interest rates ranging from 3.6 to 5.625%. MSU - Billings deposited \$8,150,900 of proceeds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and \$8,170,000 of 1994 Series C Facilities Acquisition and Improvement Revenue Bonds, maturing on November 15th, 2006, were removed from MSU - Billings financial statements. The defeasance resulted in an economic gain of \$64,704 and a difference in cash flows of \$(2,642,488).

On October 1, 1996, MSU - Bozeman, a Component Unit of the State of Montana, issued \$18,995,000 of Facilities Refunding Bonds, 1996 Series B, with interest rates ranging from 5 to 5.5%. MSU - Bozeman deposited the proceeds, along with other pledged revenues, with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and \$18,440,000 of 1986 Series A Facilities Refunding Revenue Bonds, maturing on November 15th, 2007, were removed from MSU - Bozeman's financial statements. The defeasance resulted in an economic gain of \$1,043,736 and a difference in cash flows of \$1,429,473.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1997, the in-substance defeased bonds outstanding are as follows (in thousands):

General Obligation	\$ 12,910
Special Revenue	118,940
Higher Education Revenue	<u>36,423</u>
Total	<u>\$168,273</u>

G. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This

program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1997
				FY 1998	In Year of Maturity	
Industrial Development Revenue Bonds (Pooled Loan) (a)	1984A	\$ 70	7.0-10.75	\$ 5	\$ 15 (2000)	\$ 25
Industrial Development Revenue Bonds (Pooled Loan) (a)	1985A,G,H	790	6.75-10.1	35	95 (2007)	565
Municipal Finance Consolidation Act Bonds (Irrigation Program) (b)	1988	4,976	6.60-7.75	545	130 (2014)	4,161
Economic Development Bonds (Conservation Reserve Enhancement Program) (c)	1991A-B	7,380	10.0-11.2	880	285 (2000)	1,600
Municipal Finance Consolidation Act Bonds (d)	1991	<u>6,234</u>	4.75-6.5	<u>447</u>	294 (2005)	<u>2,859</u>
TOTAL BONDS PAYABLE		\$19,450		\$ 1,912		\$ 9,210
Conservation Reserve Enhancement Program (CRP Notes) (c)		<u>2,970</u>	7.5-9.92	<u>945</u>	169 (2003)	<u>2,970</u>
TOTAL BONDS/NOTES PAYABLE		<u>\$22,420</u>		<u>\$ 2,857</u>		<u>\$12,180</u>

- (a) These bonds, which may not aggregate more than \$75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15.
- (b) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANS as of November 15, 1996 were reissued as loans to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.
- (d) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003+</u>	<u>Totals</u>
\$ 3,728	\$2,789	\$2,235	\$1,645	\$1,366	\$4,688	<u>\$16,451</u>

(2) Internal Service Bonds/Notes Payable - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 1997 are as follows (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1997
			FY 1998	In Year of Maturity	
Department of Transportation - Motor Pool	\$ 2,314	4.75-5.15	\$ 463	463 (2002)	\$ 2,314
TOTAL BONDS/NOTES PAYABLE	\$ 2,314		\$ 463		\$ 2,314

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

1998	1999	2000	2001	2002	2003+	Total
\$ 532	\$ 463	\$ 463	\$ 463	\$ 463	-	<u>\$2,384</u>

(3) Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds - The Montana Board of Housing is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1997, are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1997
				FY 1998	In Year of Maturity	
Single Family I	1997A	\$ 91,360	4.0-6.15	\$ 65	\$ 955 (2038)	\$ 91,360
Subtotal		\$ 91,360		\$ 65		\$ 91,360
Single Family II	1983C	\$114,998	5.75-10.7	\$ -	\$ 2,510 (2010)	\$ 17,934
	1984A	75,002	7.0-10.375	-	2,790 (2010)	3,271
	1985A	40,000	5.5-9.75	-	5,170 (2016)	10,473
	1985B	74,997	5.7-9.75	-	400 (2011)	3,590
	1992RA	22,520	5.65-6.5	-	10 (2032)	22,520
	1994A	25,725	3.1-6.1	1,495	550 (2024)	19,795
	1994B	40,815	3.8-6.9	2,440	580 (2025)	30,190
	1994C	20,000	4.5-6.8	405	575 (2026)	18,810
	1995A	33,580	4.75-6.55	465	1,055 (2027)	32,040
	1995B	88,000	4.2-6.4	305	1,480 (2035)	88,000
	1996A	65,000	4.7-6.375	-	2,315 (2028)	65,000
Subtotal		<u>\$600,637</u>		<u>\$ 5,110</u>		<u>\$311,623</u>
Single Family III	1988B1-B2	\$ 25,000	6.2-8.9	\$ 225	\$ 300 (2020)	\$ 8,790
Single Family IV	1989A1-A2	25,000	7.0-9.2	160	420 (2020)	9,455
Single Family V	1990A1-A2	25,000	6.2-8.525	270	640 (2021)	10,930
Single Family VI	1990B1-B2	25,000	6.3-8.5	260	680 (2022)	11,790
Single Family VII	1990C1-C2	25,000	6.55-8.95	245	705 (2022)	11,370
Single Family VIII	1991A1-A2	25,000	5.2-8.275	345	875 (2022)	14,485
Single Family IX	1991B1-B2	25,000	5.5-8.4	315	875 (2023)	15,110
Single Family X	1992A1-A2	25,000	4.45-7.85	325	825 (2023)	16,745
Multifamily	1978A	4,865	6.125	75	645 (2020)	4,180
	1992	9,725	2.95-6.55	170	50 (2024)	9,140
	1996A	890	4.10-6.15	15	60 (2027)	890
Subtotal		<u>\$ 15,480</u>		<u>\$ 260</u>		<u>\$ 14,210</u>
TOTAL		<u>\$907,477</u>		<u>\$ 7,580</u>		\$515,868
Add: Deferred amount on refunding						728
Add: Unamortized bond premiums						49
TOTAL BOH BONDS PAYABLE (net)						<u>\$516,645</u>

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1998	1999	2000	2001	2002	2003+	Total
\$39,036	\$39,809	\$40,700	\$41,185	\$40,908	\$969,852	<u>\$1,171,490</u>

H. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1997, outstanding industrial revenue bonds are as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Montana Cenex	August 1985	\$ 3,925	\$ 3,925
Bozeman Holiday Inn	October 1987	4,485	3,545
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	118,345	118,345
Total		<u>\$187,555</u>	<u>\$186,615</u>

(2) Beginning Farm Loan Program - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1997, is as follows:

Jorgensen Project - issued \$81,600; outstanding \$31,178.

(3) Montana Health Facility Authority (MHFA) - Component Unit - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1997, the MHFA had issued bonds and notes as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
West Mont Home Health Services	June 1985	\$ 440	\$ 163
MHFA 1985 Pooled Loan Projects	December 1985	66,900	35,900
Community Provider Pooled Loans	October 1988	1,461	718
Kalispell Regional Hospital	June 1990	14,475	11,985
Community Provider Pooled Loan	July 1990	5,858	4,698
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	45,855
Deaconess Medical Center	September 1991	32,650	28,650
Deaconess Medical Center	September 1991	7,000	3,355
Community Provider Pooled Loans	September 1991	3,944	3,254
Hospital Pooled Loans	August 1992	4,645	3,200
Richland Opportunities	January 1993	200	176
Bozeman Deaconess Foundation	June 1993	14,900	11,910
Sisters of Charity	January 1994	50,915	45,580
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	44
Mineral Community Hospital	March 1994	39	15
Community Memorial Hospital (1)	October 1994	570	355
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C) (1)	October 1994	695	435
North Valley Hospital (Series D) (1)	October 1994	1,310	1,120
St. John's Retirement Home	October 1994	300	150
Northern MT(1)	October 1995	5,645	5,395
Northern MT	November 1995	6,090	6,090
Livingston Hospital	May 1995	559	339
Toole County Hospital	August 1996	1,635	1,635
Marcus Daily Memorial Hospital	August 1996	1,860	1,860
Glendive Community Hospital	August 1996	1,590	1,590
Mission Ridge	August 1996	17,835	17,835
Community Medical Center-Missoula	August 1996	23,043	22,220
Benefis	September 1996	16,680	16,680
St. Peter's Hospital	January 1997	19,875	19,225
Total		<u>\$454,569</u>	<u>\$387,302</u>

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1997, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1997, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
General	\$ 29,509	\$ -	\$ 35,691	\$ 15,060	\$ 154,726	\$ 6,426	\$ 5,494	\$ -
Special Revenue								
State	44,028	10,452	7,249	26,786	30,407	26,855	-	2,044
Federal	30	55,737	3,702	17,568	2,722	13,014	-	2,772
Debt Service								
Coal Tax Bonds	-	-	3	8	2,985	398	2,914	-
Long-Range Building Program	-	-	244	1,242	5,573	54,738	-	-
Water Development	-	-	1	410	50	457	1,562	-
Highway Revenue Bonds	-	-	-	-	15,176	-	-	-
Health Care Debt Service	-	-	413	-	3,703	-	-	-
Energy Bonds	-	-	-	152	-	152	-	-
Capital Projects								
Long-Range Building Program	-	203	281	354	2,745	1,660	-	-
Fed/Priv Construction Grants	-	-	-	-	401	25	-	-
Capital Land Grant	-	-	54	-	966	573	-	-
Enterprise								
Economic Development Bonds	-	-	-	13	-	-	-	-
Liquor Stores	-	-	-	4,095	-	15,169	-	-
Hail Insurance	-	-	-	66	-	43	-	-
State Lottery	-	-	17	1,848	-	6,603	-	-
Prison Ranch	-	-	58	73	-	-	-	-
Prison Industries	-	-	87	59	-	-	-	-
Uninsured Employers	-	-	12	41	-	-	-	-
Subsequent Injury	-	-	-	1	-	-	-	500
Montana Career Info. Systems	-	-	-	6	-	-	-	-
Sec. of State Business Services	-	-	11	73	-	-	-	-
Historical Soc. Publications	-	-	-	44	55	-	-	-
Surplus Property	-	-	1	22	-	-	-	-
West Yellowstone Airport	-	-	-	5	30	-	-	-
Local Govt. Audits	-	-	-	14	-	-	-	-
Def. Comp. Administration	-	-	242	-	-	-	-	-
Internal Service								
Highway Equipment	-	-	395	387	-	-	-	-
Employees' Group Benefits	440	-	-	57	-	-	-	-
ISD	-	-	1,465	386	96	-	-	-
MUS Group Insurance	-	-	272	9	-	-	-	-
Administration Insurance	-	-	7	64	-	-	-	-
FWP Equipment	-	-	349	5	184	1	-	-
Motor Pool	-	-	194	11	-	-	999*	2,292
Administration Prop. & Supply	-	-	108	24	-	-	-	-
Publications & Graphics	-	-	208	60	-	-	-	-
Buildings & Grounds	-	-	42	98	22	102	-	-
Labor Central Services	-	-	111	96	-	-	-	-
Commerce Central Services	-	-	127	142	-	-	-	-
DEQ Indirect Cost Pool	-	-	178	88	-	-	-	-
PHHS Indirect Cost Pool	-	-	-	-	-	10	-	-
FWP Warehouse Inventory	-	-	4	-	-	-	-	-
Mail & Messenger	-	25	77	29	-	-	-	-
Payroll Processing	-	-	-	50	-	-	-	-
Warrant Processing	-	-	53	35	-	-	1	-
Investment Division	-	-	121	96	-	-	-	-
Aircraft Operation	-	-	11	21	402	-	-	-
Justice Legal	-	60	65	118	-	-	-	-
OPI Central Services	-	-	141	43	425	-	-	-
Personnel Training	-	-	17	13	-	-	-	-
Records Management	-	-	41	28	-	-	-	-

Within Primary Government and Component Units	Interfund		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Loans/Advances Receivable	Payable			In	Out	In	Out
FWP Office Supply	-	-	6	3	-	-	-	-
Debt Collections	-	-	6	13	-	-	-	-
Administration Legal	-	-	-	6	-	-	-	-
Local Govt Administration	-	-	8	8	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Administration DP Unit	-	-	3	10	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	20	2	-	-	-	-	-
Intergovernmental Trust	-	-	2,254	1	-	-	-	-
Rural Development	-	-	7	3	-	-	-	-
Escheated Property	-	-	-	-	55	1,323	-	-
Historical Society General	-	-	-	-	-	8	-	-
Metal Mines Local Assistance	-	12	-	-	-	-	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	588	7	9,976	-	44,602	551	-
Land Grants	-	-	414	5,714	1,268	41,578	-	-
Resource Indemnity	-	-	-	1,198	-	7,318	-	-
Parks Trust	-	-	-	167	-	1,007	-	-
Cultural Trust	-	-	-	249	-	499	-	3,913
Real Property	-	-	8	79	-	477	-	-
Noxious Weed Management	-	-	-	80	-	382	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
Pension Trusts								
PERS	-	-	474	70	-	-	-	-
Municipal Police	-	-	4,940	29	-	-	-	-
Firefighters Unified	-	-	4,644	23	-	-	-	-
Sheriffs	-	-	-	20	-	-	-	-
Highway Patrol	-	-	49	12	-	-	-	-
Judges	-	-	67	2	-	-	-	-
Game Wardens	-	-	-	5	-	-	-	-
Volunteer Firefighters	-	-	-	20	-	-	-	-
Agency								
Investment Pool	-	-	-	125	-	-	-	-
Employees Deferred Comp.	-	440	-	243	-	-	-	-
Performance Deposits	31	-	8	315	-	-	-	-
Central Payroll	-	-	24,882	164	-	-	-	-
Custodial Accounts	-	-	18	-	-	-	-	-
Unissued Warrants	-	-	100	2,052	-	-	-	-
Child Support Collections	-	-	39	639	-	-	-	-
Unclaimed Property	-	-	2	-	-	-	-	-
Intergovernmental	-	-	259	12	-	-	-	-
A & E Advances	-	-	1	7	-	-	-	-
Uncleared Collections	-	-	37	821	-	-	-	-
Debt Collection	-	-	2	145	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
State Comp. Insurance - New	-	-	1845	-	-	-	-	90,690
State Comp. Insurance - Old	-	-	39	1,818	-	-	90,690*	-
Pension Trusts								
Teachers Retirement System	-	6,500	850	-	-	-	-	-
Higher Education								
Current Funds								
General Operating	800	-	5,061	5,973	939	560	-	-
Designated	3,275	29	6,342	2,458	3,211	3,549	5	-
Auxiliary	9	225	636	1,236	515	9,717	52	-
Restricted	-	3,809	307	5,483	248	236	-	5
Fiduciary								
Student Loans	-	-	38	169	-	11	-	-
Endowments	-	-	17	38	190	2	-	-
Agency	-	-	4,277	1,817	-	-	-	-
Plant								
Unexpended	-	340	930	395	9,540	11,599	-	19
Renewal & Replacement	253	205	568	481	7,905	1,859	-	-
Retirement of Indebtedness	405	-	974	293	15,900	9,482	-	33
Investment in Plant	-	135	-	-	-	-	-	-
Totals	\$ 78,780	\$ 78,780	\$112,173	\$112,173	\$260,439	\$260,439	\$102,268	\$102,268

*These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer To Comp. Unit	Transfer From Primary Govt
<u>General</u>	\$ 293	\$ -	\$ 217	\$ -	\$100,784	-
<u>Special Revenue</u>						
State	72	-	531	-	13,849	-
Federal	8	-	397	-	-	-
<u>Debt Service</u>						
Long Range Building	19	-	15	-	-	-
Energy Bonds	2	-	-	-	-	-
<u>Capital Projects</u>						
Long Range Building	-	-	14	-	-	-
<u>Enterprise</u>						
Economic Development Bonds	1	-	-	-	-	-
State Lottery	-	-	1	-	-	-
Prison Industries	16	-	-	-	-	-
Secretary of State Business Srv.	-	-	1	-	-	-
Historical Society Publications	-	-	2	-	-	-
Surplus Property	-	-	1	-	-	-
<u>Internal Service</u>						
ISD	176	-	18	-	-	-
MUS Group Insurance	823	-	20	-	-	-
Administration Insurance	-	-	4	-	-	-
FWP Equipment	2	-	-	-	-	-
Administration Supply	18	-	-	-	-	-
Publications & Graphics	22	-	-	-	-	-
Labor Central Services	-	-	1	-	-	-
Commerce Central Services	7	-	2	-	-	-
DEQ Indirect Cost Pool	1	-	-	-	-	-
Mail & Messenger	2	-	-	-	-	-
Warrant Processing	18	-	-	-	-	-
Investment Division	20	-	1	-	-	-
Justice Legal	2	-	-	-	-	-
Records Management	4	-	-	-	-	-
<u>Nonexpendable Trusts</u>						
Land Grants	-	-	277	-	1,740	-
<u>Pension Trusts</u>						
PERS	422	-	-	-	-	-
<u>Agency</u>						
Employees Defer. Comp.	75	-	2	-	-	-
Land Grant Interest	-	-	1	-	-	-
Performance Deposits	-	-	2	-	-	-
Central Payroll	849	-	-	-	-	-
Child Support Collections	6	-	-	-	-	-
A & E Advances	1	-	2	-	-	-
Uncleared Collections	4	-	1	-	-	-
Debt Collection	-	-	9	-	-	-
COMPONENT UNITS						
<u>Enterprise Funds</u>						
Housing Authority	-	41	-	1	-	-
Health Facilities Authority	-	8	-	-	-	-
State Compensation Ins. - New	-	620	-	13	-	-
State Compensation Ins. - Old	-	6	-	171	-	-
<u>Pension Trusts</u>						
Teachers Retirement System	-	40	-	-	-	-
<u>Higher Education</u>						
Current Funds						
General Operating	-	450	-	12	-	114,585
Designated	-	1,330	-	123	-	-
Auxiliary	-	19	-	37	-	214
Restricted	-	33	-	872	-	-
<u>Fiduciary</u>						
Student Loans	-	-	-	4	-	-
Agency	-	306	-	39	-	-
<u>Plant</u>						
Unexpended	-	6	-	110	-	723
Renewal and Replacement	-	4	-	4	-	27
Retirement of Debt	-	-	-	133	-	824
Totals	<u>\$ 2,863</u>	<u>\$ 2,863</u>	<u>\$ 1,519</u>	<u>\$ 1,519</u>	<u>\$116,373</u>	<u>\$116,373</u>

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1997, (in thousands):

Primary Government

Enterprise Fund		Deficit
West Yellowstone Airport	\$	(674)
Department of Agriculture		(177)

Internal Service Fund

Administration Insurance	(5,522)
Payroll Processing	(74)
Justice Legal	(157)
Records Management	(33)
Administration - Legal	(9)
Local Government Admin	(36)
Total Fund Deficits - Primary Government	<u>\$ (6,682)</u>

Component Units

Proprietary Fund Type

State Comp. Ins. (Old Fund)	\$ (273,850)
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Higher Education Funds

General Operating Subfund	(22,235)
Total Fund Deficits - Component Units	<u>\$ (296,085)</u>

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Wildlife Mitigation Trust Fund and the Department of Environmental Quality Reclamation - OSM Trust Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust \$545,993, Treasure State Endowment Fund \$42,263 and the School Bond Contingency Fund \$2,178. All other Nonexpendable Trust Fund balances, \$492,843, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1997, is as follows (in thousands):

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Operating Revenues:						
Charges for Services	\$ 70	\$ 36,037	\$ -	\$ 28,293	\$ 9,125	\$ 73,525
Investment Earnings	629	-	286	212	379	1,506
Financing Income	2,364	-	-	-	-	2,364
Contributions/Premiums	-	-	2,271	-	2,551	4,822
Grants/Contracts/Donations	-	-	-	-	21	21
Taxes	-	10,130	-	-	-	10,130
Other Revenues	1	47	143	8	6,222	6,421
Operating Expenses:						
Depreciation	4	24	2	97	469	596
Amortization	-	-	-	-	7	7
Other	2,651	30,845	2,004	21,807	15,845	73,152
Operating Income (Loss)	409	15,345	694	6,609	1,977	25,034
Nonoperating Revenues						
(Expenses)	-	(59)	-	(6)	475	410
Oper. Trans. In (Out)	-	(15,169)	(43)	(6,603)	85	(21,730)
Net Income (Loss)	<u>\$ 409</u>	<u>\$ 117</u>	<u>\$ 651</u>	<u>\$ -</u>	<u>\$ 2,537</u>	<u>\$ 3,714</u>
Current Assets	\$ 5,258	\$ 11,828	\$ 4,465	\$ 3,688	\$ 15,817	\$ 41,056
Current Liabilities	(1,124)	(10,731)	(2,018)	(5,417)	(1,069)	(20,359)
Net Working Capital	<u>\$ 4,134</u>	<u>\$ 1,097</u>	<u>\$ 2,447</u>	<u>\$ (1,729)</u>	<u>\$ 14,748</u>	<u>\$ 20,697</u>

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Total Assets	\$ 52,216	\$ 13,043	\$ 10,657	\$ 5,866	\$ 27,617	\$109,399
Total Liabilities	49,650	10,812	5,174	5,627	5,628	76,891
Fund Equity	<u>\$ 2,566</u>	<u>\$ 2,231</u>	<u>\$ 5,483</u>	<u>\$ 239</u>	<u>\$ 21,989</u>	<u>\$ 32,508</u>
Long-Term Obligations	\$ 48,526	\$ 81	\$ 3,156	\$ 210	\$ 4,559	\$ 56,532
Cur. Yr. Capital Cont.	\$ -	\$ -	\$ -	\$ -	\$ 422	\$ 422
Acquisition of Fixed Assets	\$ 9	\$ 203	\$ 7	\$ 52	\$ 337	\$ 608
Disposal of Fixed Assets	\$ 5	\$ 72	\$ 3	\$ 41	\$ 509	\$ 630

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).
4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets is \$1,846,000 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Secretary of State
Business Services

Department of Corrections
Prison Ranch\ Industries
Women's Prison Industries
Swan River Vocational Training

Department of Commerce
Local Government Audits

Montana Historical Society
Historical Society Publications

Department of Administration
Surplus Property
Flexible Spending
Deferred Compensation Admin.

Department of Transportation
West Yellowstone Airport

**Department of Labor
and Industry**
Montana Career Info. System
Subsequent Injury
Uninsured Employers

17. CONTRIBUTED CAPITAL

During fiscal year 1997, contributed capital changed by the following amounts (in thousands):

	<u>PRIMARY GOVERNMENT</u>		<u>COMPONENT UNITS</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Proprietary Fund Type</u>
Beginning Balance - July 1, 1996	\$ 4,592	\$ 6,578	\$ 11,599
Additions:			
Contributed Capital Transfers-in	2,211	1,986	97,716
Deletions:			
Contributed Capital Transfers-out	<u>(1,789)</u>	<u>(2,795)</u>	<u>(18,647)</u>
Ending Balance - June 30, 1997	<u>\$ 5,014</u>	<u>\$ 5,769</u>	<u>\$ 90,668</u>

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

Nonexpendable Trust Fund

Reporting of Investment Earnings

Coal Tax Trust	Permanent Trust Accounting Entities - Investment Earnings are distributed to the General Fund. Treasure State Endowment Accounting Entity - A specified amount may be transferred monthly to the State Special Revenue Fund to cover administrative costs, grants, and loans to local governments for infrastructure projects. In 1997, transfers of \$2,657,546 were made.
Land Grants	Ninety-four percent of investment earnings are transferred to the General Fund for the Office of Public Instruction to distribute to public schools; the remaining six percent is distributed to the Higher Education Units, Department of Administration, Department of Corrections, Department of Public Health and Human Services and School for the Deaf and Blind.
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: At the beginning of each biennium, \$175,000 to the Environmental Contingency Account; \$50,000 to the Oil and Gas Damage Mitigation Account; \$2,000,000 to the Renewable Resource Loan and Grant Account; \$3,000,000 to the Reclamation and Development Grant Account; \$500,000 to the Water Storage Account; and every fiscal year \$240,000 to the Renewable Resource Loan and Grant Account; and the remaining investment earnings are distributed thirty-six percent to the Renewable Resource Loan and Grant Account; eighteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act Account; forty percent to the Reclamation and Development Grant Account; and six percent to the Environmental Quality Protection Account. The beginning of a biennium is the even numbered fiscal year; therefore, the fixed amounts noted above were not distributed.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Moore Sipple Connector	Investment earnings are distributed quarterly to the Central Montana Rail Company for use in its operation.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 55.1% of the Regents' outstanding loan volume or \$274,700,000 is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1997 amounted to \$408,292. MHESAC employees are allowed to participate in the University System group insurance plan; MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1997 MHESAC paid OCHE a total of \$451,626.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity; each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately \$1,508,517 in fiscal year 1997, including \$952,875 in prepaid lease payments through the year 2002 from Montana State University-Billings to its foundation. In return the universities received from their foundations approximately \$12,363,272 during fiscal year 1997

for scholarships and academic/institutional support. In addition to support from their affiliated foundation, the University of Montana-Missoula, Montana State University-Bozeman and Montana State University-Billings received a total of \$1,841,336 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

20. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of \$5.407 million in 1976 to a high of \$7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed monies, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these monies should be paid to the United States in trust for the Tribe. The escrowed funds totaling \$30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately \$46.8 million in severance taxes and \$11.4 million in gross proceeds taxes. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgment interest on the tax amounts which, as of March 31, 1994, was estimated at \$214.1 million for the severance tax and \$40.7 million on the gross proceeds tax. Trial on their claim was held in April and May 1994, and in November 1994, the district court ruled in the State's favor. In August 1996, however, a three-judge panel of the Ninth Circuit Court of Appeals reversed the District Court's ruling and ordered restitution of the coal severance taxes. It also remanded the matter for determination of whether the Tribe and the United States were entitled to prejudgment interest and if so, the amount of such interest. As of June 30, 1996, the estimated amount of prejudgment interest, using the Tribe and United States' method of calculation, was approximately \$320.27 million with respect to the severance taxes and \$64.4 million with respect to the gross proceeds taxes.

In September 1996 the State filed a petition for rehearing with a suggestion for rehearing en banc directed at that portion of the Court of Appeals' August opinion awarding restitution of the severance and gross proceeds taxes to the Tribe and the United States. In October 1996 the court modified the opinion to refer to one issue raised in the State's petition and then denied the petition in February 1997. The State filed a petition for writ of certiorari with the United States Supreme Court in May 1997, and the Court granted the petition on October 14, 1997. A decision on the restitution claim is anticipated by late June or early July 1998.

The Tribe and the United States additionally sought leave in April 1993 to amend their complaints before the District Court for the purpose of alleging damages in connection with loss of possible production under a coal lease with Shell Oil Company. They estimated those damages alternatively at \$327.1 million and \$250.4 million as of March 31, 1994. The district court denied the requested amendment in July 1993 and again in February 1994. The court, however, addressed that claim in its November 1994 decision and rejected it. The Tribe and the United States raised that aspect of the court's decision in the appeal before the Ninth Circuit discussed in the previous paragraph. In its August 1996 opinion, the Court of Appeals affirmed the District Court's denial of this claim. The Tribe petitioned the Court of Appeals' panel for rehearing on this issue, but its petition was denied in November 1996. In June 1997 the Tribe filed a conditional cross-petition for writ of certiorari before the United States Supreme Court in connection with the Shell claim. The United States did not seek review of the Court of Appeals' decision as to the Shell claim. On October 6, 1997, the Supreme Court denied the Tribe's cross-petition. The Ninth Circuit's ruling as to this claim is, therefore, final.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject

to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1997.

USDA Commodities - In fiscal year 1997, the State distributed \$5,406,373 in commodities. The value at June 30, 1997, of commodities stored in the State's warehouses is \$1,774,829 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984 through 1986. In January 1996, a final administrative decision was made against the State and local governments establishing a preliminary assessment of \$2.16 million plus simple interest of 6 per cent per annum. Of the principal amount, \$720,000 plus interest of approximately \$1.0 million is estimated to be the initial liability of the State; the balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the State might have to pay because of the current nonexistence of some of those political subdivisions, should not be substantial, and this cost would be covered by the Social Security Agency Fund administered by the Public Employees' Retirement Division.

C. Miscellaneous Contingencies:

Commitment fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1997, is \$30,330,000.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1997, is \$42,890,555.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1997, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonexpendable Trust</u>
Corporation	\$ 5,250	\$ -	\$ 317	\$ -
Coal Severance	11,588	3,616	5,601	22,448
Oil & Gas	4,168	-	-	-
Resource Indemnity	-	518	-	439
Totals	<u>\$ 21,006</u>	<u>\$ 4,134</u>	<u>\$ 5,918</u>	<u>\$ 22,887</u>

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

21. SUBSEQUENT EVENTS

On September 22, 1997, the State issued \$110,700,000 of Tax and Revenue Anticipation Notes, Series, 1997, due June 30, 1998. The proceeds of the Notes provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1998.

On September 30, 1997, the State issued \$12,640,000 of General Obligation Bonds, Series 1997B (Long Range Building Program) for building construction and the purchase of Virginia City/Nevada City.

